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THE TARIFF PROBLEM IN CHINA

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THE TARIFF PROBLEM IN CHINA

BY

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**THE FACULTY OF POLITICAL SCIENCE OF
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THIS MONOGRAPH IS DEDICATED

To

MY FATHER

SHI-CHI CHU

WHO RECEIVED THE KUNG-SUN DEGREE AND WHO HAS BEEN
ATTENTIVE TO THE EDUCATION OF HIS CHILDREN

AND TO

MY UNCLES

HU-CHI CHU

SOMETIME TAOTAI IN HUPEH PROVINCE
WHO WAS GRANTED THE CHIN-SZE DEGREE BY IMPERIAL EDICT

FU-CHI CHU

WHO WAS A MEMBER OF THE HANLIN ACADEMY AND SOMETIME THE
PROVINCIAL EDUCATIONAL CHANCELLOR IN SHANSU PROVINCE
AND IMPERIAL COMMISSIONER OF EDUCATION IN THE
PROVINCES OF HUPEH AND HUNAN, FOR EXAMINING
THE CANDIDATES OF THE SECOND DEGREE

PREFACE

THE purpose of this work is two-fold. In the first place, it is designed to draw attention to the fact that the revision of tariff treaties is one of the engrossing questions in China. Being deprived of tariff protection, having been subjected to unfavorable and unjust commercial regulations, many industries in China are deranged to such an extent that the general condition is deplorable. To the United States alone China can look for justice and sympathy. As a result of the proclamation of the "open door" policy by the Secretary John Hay, of the returning of the Boxer indemnity to China by ex-President Roosevelt and of the first recognition of the Chinese Republic by President Wilson, this country has earned the good-will of the Chinese people. To the extent that this great Republic stands for peace and justice, it is to her interest to see that the younger Republic on the other side of the world shall be freed from the onerous and humiliating treaty provisions which have been brought about chiefly by military coercion.

In the second place, the monograph is a part of a larger volume which is in preparation for publication in the Chinese language, with a view to showing the Chinese government and people how far they themselves have been responsible for such unreasonable arrangements in the past, to what extent they may expect their removal at present and what should be China's economic policy in the near future.

The author desires to acknowledge his indebtedness to Professor Edwin R. A. Seligman for his invaluable sug-

PREFACE

gestions and corrections. Acknowledgments are due also to Professor R. E. Chaddock, who has kindly read the proof and who has made many helpful criticisms, as well as to Mr. Robinson for his assistance in correcting the proof. As to the financial assistance toward printing this work, the author desires to express his indebtedness not only to the Columbia Series and to the Chinese Educational Mission at Washington, but also to Messrs. H. T. Liang, the manager of the Wah-chang Mining and Smelting Co. and K. P. Ou, the manager of the Canton Trust Company.

C. C.

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INTRODUCTION

THE tariff of China is in most respects one of the simplest and most moderate and yet one of the most unworkable of existing tariffs. Under it privileges are granted to foreigners only. The absence of any tariff right, the lack of any economic policy on the part of the government (under the Manchu dynasty), the unjust and preferential treatment accorded to foreigners as against the Chinese, the working out of internal taxation in connection with imports and especially with exports,—all these facts tend to destroy, and have to a considerable extent destroyed, China's infant industry and commerce.

This monograph is divided into two parts. Part I contains a brief history of the tariff, a study of its political, economic, and fiscal aspects, an account of frontier and native customs, and of inland taxation in its relation to the tariff, and a short discussion of the correct tariff policy to be adopted. Part II deals with tariff administration in so far as it affects the fundamental political right and the economic order of the country. Before going into details, it seems advisable to give a preliminary survey of the field under four headings: (1) the trade and financial administration of China, (2) the operation of the tariff, (3) tariff administration, and (4) present problems.

TRADE AND FINANCIAL ADMINISTRATION

Treaty ports. In the eighteenth^o century Dutch and English traders visited both Canton and Macao; in the early part of the nineteenth century the former port was made

by the English and Americans their commercial center. The Treaty of Nanking with Great Britain, in 1842, opened the first five ports, Canton, Amoy, Foochow, Ningpo and Shanghai, at each of which the foreign consulate was for the first time established. By the Tientsin treaty with the same Power five additional ports were opened. By the Chefoo Agreement China again undertook to allow frontier trade between Burma and Yunan, and four additional ports were thrown open to foreign trade. Since then additional ports throughout the country have been assigned for foreign trade either by treaties or by the Chinese Government on its own initiative, the number now (1914) being over 75, besides a number of "ports of call."¹

A treaty port is almost synonymous with "port of entry," but not entirely. At these ports foreigners are permitted to establish consulates and to live as well as to trade. On the trade at these ports are levied dues and duties according to a tariff settled by treaties. In the open ports, there are areas, determined by mutual agreement between the foreign consul and the Chinese authorities, where the foreigner can reside and where he can either hire or build houses. Within the ports he can trade or engage freely in industrial enterprises and also travel freely in a zone of 50 kilometers around the said ports. That is to say within these ports the foreigner enjoys all the rights admitted by the modern principle of international law. But with the introduction of extraterritoriality, he has obtained some important advantages which are not given in other countries.² This juridical protection to

¹ See Appendix I.

² From the juridical standpoint the open ports may be classified into four groups, as follows:

a. Leased territories entirely under foreign control for a certain number of years mentioned in the treaty, as Tsingtao under the German régime.

b. Concessions, as at Tientsin, in which the municipal and police ad-

the foreign merchants has been and still is the chief cause of difficulty in the tariff administration in China.

The meaning of the treaty-port system to trade. In spite of the juridical protection given to the foreigner, it is clearly indicated by law and by the text of the treaty that these concessions or settlements have a purely commercial character in their object and a personal character in their form. The concessions are granted on the basis of lease to the subjects of different Powers. To avoid any doubt on this point, stipulations have been inserted in the treaties to the effect that the foreigner shall not retain the land within the concessions through any claim to the title, but only as tenant or lessee. In addition, the Chinese Government levies a land tax on the area included in the concession and provides that all the transactions affecting real estate must be registered in the yamen of the Superintendent of Customs.

An important tariff immunity, however, is granted to the foreign merchants in that they can ship their goods from one port to another on only one payment of duty, which exempts them from all further taxation on movement. Having once paid an import duty at Shanghai, for instance, which is a treaty port, a foreign importer can ship a bale of sheetings from that port to Hankau, another treaty port without any further payment. Later on (say within two or three years) it may be again shipped even to Chungching a treaty port in the interior, without further payment. But if it goes to an "inland" place which is not a treaty port, the bale is

ministration is under the control of the lessee Power. But these concessions are more commercial than political in character.

c. Settlements or "reserved areas for residence," as at Shanghai, with a foreign municipal organization. Here, however, the Chinese Government issues the title-deeds.

d. "International settlements." These are found in most of the new ports where there is neither a concession nor a reserved area, excepting an international settlement established by the Chinese authorities.

liable to a tax which is levied on commodities in transit not exempted by special privileges. As a matter of fact, treaty ports may be found in the most interior provinces, while the so-called inland place may exist on the coast. But in matters of taxation and privileges, a broad distinction is drawn between the numerous open ports and the rest of China, which, even on the coast, is deemed to be inland.

From the Chinese standpoint the existence of treaty ports is considered by many as necessary and vital for the protection of native industries. In the open ports, the foreign merchants and manufacturers have occupied a predominant position. But so far as their activities are more or less limited to these ports, the infant native industries may still find an outlet for their products in the interior and may thus be protected from foreign competition. It is often said that a certain period of time will be needed for the administrative, judicial and economic reforms in China, before the total abolition of the existing system will be possible. For these reasons, the interest of the foreign merchants is to increase the number of open ports as far as possible, while the contrary policy is manifestly favorable to Chinese industries.

Financial administration in China. Prior to 1842 China had no open or recognized trade relation with foreign countries, and theoretically there were no imports and exports. The tax system was based chiefly upon a land tax, which still exists today. A tax on Chinese produce coming into, and going out of, the various districts of the country was collected at native custom-houses established on various rivers and seaports. There was also a system of taxes on internal production and consumption, which also still exists. Owing to the Taiping rebellion in the middle of the nineteenth century, another internal tax known as *likin* was established, applying to all goods in transit. This tax is a very

important and almost vital matter in connection with the export and import trade of the nation. The *likin* barriers exist along all the trade routes throughout the greater part of China. The transportation of any commodity whatever past a barrier involves the payment of a tax. While the amount of taxes collected on goods at any one station is not great, the total exaction at all stations is material. During the past years the problem of the *likin* has been an ever present source of difficulty between the Government and the merchants.

Above all, up to the present, decentralization of control has been the chief characteristic of the financial administration. The central government has been accustomed to make demands upon the provinces only in lump sums, leaving the provincial governments to apportion the details. Every province was therefore a little kingdom in itself; it had to meet its own expenditures and to collect its own revenues. There was no machinery through which the Peking Government could control the provincial levies either in amount or in incidence. The result was that there was misunderstanding and even mistrust between the central and the provincial governments. For instance, on account of a serious lack of revenue the provincial authorities were sometimes obliged to levy *likin* on foreign goods in transit which were exempted by treaties concluded between Peking and foreign powers. This source of difficulty has only been gradually removed in recent years.

THE OPERATION OF CHINA'S TARIFF

The difficulty with the tariff. It is an unfortunate fact that China's tariff has been settled by treaties and that those treaties have always, in the first instance, been drafted by the foreign negotiators, and so hurriedly drawn and concluded that they ignored China's provincial circumstances

and did not take into account the difficulty connected with the operation of the tariff. They may seem to foreigners fair and suitable, but from the Chinese standpoint they are damaging and unworkable. The result is that the Chinese have thus far learned only the dark side of foreign trade, which was, in their opinion, to be tolerated but not be encouraged. For the advent of the foreigner has not only destroyed the old institutions and industries, but has also created a new privileged class in China, that never existed before. By the Nanking treaty with Great Britain, China had established for the first time something like a regular tariff on foreign trade. That tariff was revised by the Tientsin treaty in 1857. The rate on imports and exports in general was fixed at five per cent *ad valorem*, and a simple tariff schedule was drawn up on November 8, 1858 at Shanghai. In the course of the next few years treaties with other Powers were also signed by China. The second tariff revision did not occur until 1900 and went into effect in 1903.

The foreigners have been satisfied with the treaties and the tariff since the Nanking treaty, but the Chinese people think differently. The most striking among the treaty clauses are those under the heading "extraterritoriality" and those under that of "the most favored nation." Extraterritoriality has engendered not only contempt of the native people toward their own Government and officials, but also envy and dislike of the foreigner withdrawn from Chinese control. The most favored nation clause in China provides that whatever is accorded to new comers must be extended to the predecessors, who, however, in their turn refuse to be bound by the new conditions. This clause has consequently always stood in the way of change and has prevented the Chinese Government from securing various ameliorations in exchange for special advantages.

The transit pass system. The most difficult provision

in the tariff is the transit pass system. Having enjoyed a most moderate (five per cent) tariff, the foreigner is again protected by the transit rule which allows his goods to be carried from or to a port, to or from any inland place, however distant, on payment of a transit due of 2.5 per cent. The trouble lies in the fact that the foreigner has interpreted the treaty as exempting his goods, if consisting of imports, from all subsequent taxation, and if consisting of exports, from all interior taxation; while the Chinese Government has contended that it merely protects the transit between a port and an inland place.

The real causes of the trouble are however still deeper. In the first place, this provision ignores the financial system existing in China and the immense size of the country. Were the transit rule to be so strictly carried out as the foreigner has wished it to be, the provinces would be deprived of an important revenue and would no longer be able to maintain order and peace in the country. The transit stipulation thus attempts to achieve a result which is not attainable without fundamental changes in the entire system of administration throughout the country, as well as in the relations existing between provincial and central governments. In the second place, while the transit system created a special privilege which applies only to foreign trade, it soon became the practice of unscrupulous persons, foreign and native alike, to take advantage of it,—the latter to escape from provincial taxation and the former to enjoy a new source of gain out of fees received for passing Chinese goods as belonging to the foreigner.

TARIFF ADMINISTRATION

Under the old factory system in the early part of the nineteenth century, the custom-houses were controlled by the Hong merchants to whom the duties were farmed out. The establishment of the new custom-houses began with

the Nanking treaty in 1842. At the outset the foreign consuls were charged with this duty to tax the foreign goods and to hand the revenue over to the Chinese Government. This system was later abandoned owing to the resulting fraud—a natural result of the fact that most of the consuls at that time were not paid and were themselves adventurers. But, on the other hand, the Chinese customs officials could not satisfy the foreign merchants. In 1853 at Shanghai a board of three representatives from among the British, American and French merchants in China was instituted for the purpose. This system was soon developed into the present Inspectorate of which the Inspector-General is the head and which has been extended throughout the whole country. Since then, the Inspector-General has always been, and still is, a British subject and the nature of the service has been most cosmopolitan, men of seventeen or more nationalities being employed. Owing to the hypothecation of the entire customs receipts as a result of the indemnities and foreign loans since the end of the past century, the foreign control of the customs has been strengthened rather than weakened.

What can foreign merchants do in China? The answer to this inquiry is based upon the existing treaties and trade regulations. They may import foreign goods into, and export native produce from, China through each one of the open ports, on payment of a tariff duty amounting to what was five per cent on the average values of 1897-8-9, in the case of imports, and on the values of 1860, in the case of exports. The foreigners again may take foreign goods to, and bring native produce from any inland place, on payment of an additional half tariff duty, in the shape of transit dues. They may also convey Chinese produce from port to port, paying the full export duty on shipment and a half duty on landing. At the treaty ports where they reside,

they are free from all local taxation, and before 1903 they were even allowed to bring in whatever they required for their personal and household use, duty-free.

What is most important to them is the fact that since the Shimonoseki treaty in 1895 they have been given the right of manufacturing any kind of goods in the treaty ports, subject only to the same conditions as the producers of native manufactured goods in China. Everywhere they are withdrawn from Chinese control, and are placed under that of their own consuls. But their merchandise can be moved only in accordance with Chinese customs regulations, and ships must anchor in accordance with the harbor rules and directions of the Chinese harbor master. Their movements, however, are free and unrestricted. In many respects they receive special privileges and exemptions which are not accorded to natives.

PRESENT PROBLEMS

Phases of the Tariff problem. The suggestions made in the body of this monograph which look to a possible solution of the tariff problem in China may be summed up in the following points:

1. *Revision of the Tariff.* Any revision of the tariff in China involves the negotiation of new, or the modification of old, treaties. There is serious need of a revision of the tariff, for values have altered and new commodities have appeared: as a consequence of which most goods are paying far less than the stipulated tariff rates.

2. *Abolition of the Likin.* The abolition of the *likin* was emphasized in the commercial treaty with Great Britain in 1902, but thus far has not been brought about, owing to the necessity for revenue on the part of Government. An adequate source of revenue must be sought as a substitute, before its entire abolition is possible.

3. *Increase of the Tariff.* The five per cent duty is too low from the fiscal standpoint. The increase of the import duty to 12.5 per cent was suggested in the said treaty in the event of abolition of the *likin*. China has reason even to demand a further increase of the tariff, if the reforms promised in the treaty can be carried out.

4. *Tariff Policy.* Instead of a uniform tariff, a preferential schedule of duties should be provided for in accordance with the general economic policy of the country.

5. *Reduction or Abolition of Export Duties.* It is in general a lamentable situation for a nation to impose a heavy tax on its own exports. The abolition or at least the reduction of most of the export duties is necessary for the encouragement of new industries in China.

6. *Preparation for the Restoration of the Tariff Right.* The customs tariff is a part of the national tax system, the right to impose which is closely connected with the sovereignty of the country. In spite of the difficulty inherent in the restoration of the statutory tariff, which has been lacking in China for about three-quarters of a century, the Government should make a strenuous effort to negotiate with the Powers concerning its right to impose tariffs on its own initiative.

7. *Preparation for the Removal of Extraterritoriality.* "The clue to our future dealings with China lies in the abolition of extraterritoriality," is a suggestion made some forty years ago by Sir Robert Hart, the Inspector-General of Customs in China, for the British Government, though he did not intend at that time to apply it immediately. Indeed a thorough judicial reform in China is necessary before his valuable suggestion can be possibly carried out. But sooner or later this step must be taken in order to remove existing grievances and to secure satisfaction for both parties.

8. *Control of the Customs.* At present the maritime customs are entirely controlled by foreigners. A legitimate minimum demand is an adequate preparation for training Chinese to serve in the customs, in order to serve as a foundation for the ultimate control of the customs by competent Chinese authorities.

Above all, when the time comes for negotiations as to the revision of the treaties, it is highly desirable to ensure a more perfect knowledge of the whole situation, a friendliness of spirit and a leisurely discussion between China and the foreign powers.

CHAPTER I

SKETCH OF THE TARIFF HISTORY

I. GENERAL STATEMENT

THE entire Chinese tariff history can be conveniently divided into four periods. The first period begins with the irregular customs tariff in early times until the year 1843, when the Treaty of Nanking was concluded between China and Great Britain, which created a tariff system—imperfect as it was. The second period covers the years between 1843 and 1885, in which the Nanking tariff, later revised by the Tientsin Treaty, was in force. The years from 1885 on to 1906 form the third period, in which the economic order of the country underwent a fundamental change. Finally, the year 1906 marks the beginning of the fourth period of our tariff history, because, since then, the Government has begun to take the initiative for customs reform and tariff regulation.

2. THE FIRST PERIOD—FROM EARLY TIME TO 1843

Maritime Customs in early times. During the Yuan dynasty (about the fourteenth century), the trade along the coast began to grow to such an extent that the government established customs offices to collect taxes. This was the first time that China had exacted maritime customs duties; governing the levying of which, however, there was yet no regular system. In the Ming dynasty (1400 to 1644 A. D.), there existed some sort of shipping dues, the amount to be

levied being proportional to the size of the vessels. The regulations at Canton were then made very strict. One hundred and twenty houses were built there for the accommodations of foreigners. Under the reign of Kang-hsi, the second great Emperor of the Tsing dynasty (from 1662 to 1722), owing to the continued growth of the import and export trade on the coast, four maritime custom-houses were established in Kiangsu, Chekiang, Fukien and Kwangtung, taxing both imports and exports. But, during the eighteenth century, Canton became the main center of foreign trade on account of the 'ruinous' exactions enforced at other ports.

Later tariff regulations. At that time a superintendent of trade was usually appointed for each customs office by the board of revenue with the approval of the Emperor. The tariff duties were divided into two kinds, regular and special. This rule applied to both imports and exports. A certificate was required for any vessel that was to leave the coast for foreign lands. The time of its leaving and entering was strictly examined and recorded. In the beginning, the regulations were pretty strictly enforced. Later, however, corruptions and irregularities in collecting taxes gradually found their way into the different customs offices. In spite of the Imperial decree of the twenty-fifth year of Kang-hsi (1687), prohibiting the corrupt practices, the officials continued to exact irregular sums under various pretexts. This gave rise to the complaints on the part of the merchants, both foreign and native.

Relations with Great Britain. The British through the East India Company established their factory¹ at Canton in 1686 when the entire coast was opened to foreign trade: before that time the privilege of trading at Canton was ex-

¹ The residence and office of the factor, or the business agent.

clusively reserved to the Portuguese because they paid an annual amount of 24,000 taels to the government for the monopoly of the trade. In 1690 the British began to be allowed to send vessels to Canton. Before entering the port, the customs officials usually took about two weeks to survey the loading capacity of each vessel and to decide the amount of dues which they should pay according to regulation. Bribes in order to lessen the official duty were common. At one time the demand of the customs officials was 2,484 taels. The tax was so heavy that the merchants refused to pay and were ready to send the goods back. After a dispute which lasted a whole week, the amount was finally reduced to 1,500 taels. Of that amount, 1,300 taels were for the expenses of survey, the customs duty itself being only 200 taels. The irregular exactions of the officials at Amoy were even greater than at Canton. In 1792-3 the Earl of Macartney was sent in vain to Peking to ask for the reduction of the restrictions on trade and the amount of duties at Canton. In 1816, the second embassy—that of Amherst—met the same failure.

Foreign factories and the Co-Hong system at Canton. Before the end of the seventeenth century, foreign trade was concentrated at Canton; because, at Amoy, Ningpo and other ports, the compulsory tax of the officials was too heavy, irregular and without limits. Even at Canton, disputes often arose between the Chinese officials who desired to exact duties as heavy as possible and the foreign merchants who had a different interest. The Hoppo¹ had the

¹ Hoppo is the foreign name of the then Superintendent of Trade at Canton, through whom alone the foreigners were allowed to transact business. Later the establishment of the Co-Hong brought him into less direct contact with foreign merchants, but his post, that of the administrator of the customs at Canton, was not actually abolished until 1904, when its functions were transferred to the Viceroy. The appointment of Hoppo began in 1702.

sole power to control the amount of both imports and exports, and to levy the tax from the foreign merchants. Delay and oppression therefore, usually resulted. By the reform of 1703, his power was conferred on the Hong merchants¹ who had to see that the foreign merchants paid their duty. After that the foreigners had no direct relation with the customs. The whole thing was in the hands of the Hong merchants who in turn had to pay annual sums to the government. The relation, on the whole between the Hong merchants and the foreigners was good. But, for some reason, the Hong merchants introduced many irregularities of taxation and created many illegal practices by levying on the foreigners additional duties. This resulted in the corruption of the customs service and in many inconveniences to the trade.

The contract between the Canton Customs and the East India Company in 1715. In the contract, among other things, there were to be found the following provisions: (1) removal of restrictions on foreign trade, (2) exemptions (on the goods not for sale and regarded as necessities for the factory merchants) from the customs duties and (3) removal of unreasonable import and export duties as well as the "compulsory tax." At that time there was in existence the so-called "forty per cent duty" *ad valorem*, the removal of which was asked but not granted. It was said that, of the forty per cent duty, ten per cent went to the collector of the tax and the other thirty per cent went to

¹ The Co-Hong merchants were appointed by the Hoppo for the privilege of the monopoly of trade. The system enforced under the Co-Hong monopoly was that for every foreign merchant trading at Canton, one of the thirteen Hong merchants had to be security, and through him alone, both in regard to import and export, could the foreigner do business. The traders during the winter season lived in the factories, which were the property of the Hong merchants and rented, in whole or in part, to the foreigners.

the Chinese merchants who were engaged in foreign trade on board the respective ships. By custom it became a sort of regular duty.

Foreign merchants' grievances. In spite of the above contract or treaty, the compulsory tax was steadily increased from year to year. The foreigners threatened the officials with the removal of the trade to Amoy. For a time, consequently, the officials reduced the tax below the rate of the official duty. Before long, however, they again levied on exports a surtax of ten per cent *ad valorem*. The foreigners protested in vain. In 1733, many foreign vessels anchored outside of the Bogue and demanded the revival of the treaty of 1715. The customs officials agreed to this, but the tariff system was still far from being uniform.

Until 1736 when the Emperor Kien Lung ascended the throne, the imperial favor was extended to the foreigners and the ten per cent surtax was removed. But the Viceroy at Canton by taking this chance received many bribes, amounting to thousands of taels. Moreover, the fixed official duty was then combined with the compulsory tax and the fee for the survey of the vessels when they entered the port, amounting altogether to 1,950 taels for every vessel. In 1735, 1737, 1747, 1752, 1755, and 1762 there were repeated protests, every time on the part of the foreign merchants, but without any effect.

Opium duty. Opium was first imported to China by the Portuguese. The imperial decree of 1730 limited the amount of importation to 200 chests per annum. The amount was gradually increased, and in the year 1767 the annual importation had reached 1,000 chests, for the object of the edict was to prohibit its smoking but not necessarily to restrict the amount for medical purposes. According to the record of the Canton customs of 1754, opium was then taxed at Tls. 3,000 per picul, with a surtax of Tls. 2,450.

The tax was therefore altogether Tls. 5.450. per picul. In the period between 1730 and 1774 the Chinese government did not interfere with opium imports, the amount of which increased by twenty chests every year. After 1774 the British began to import opium to China from Calcutta. In 1790 the opium imported from India reached the amount of 4,054 chests annually. As a result the use of opium spread throughout China, all having been imported from Canton.

In 1796, through the memorial of the viceroy of Canton, the government reissued the decree of 1730 and increased the punishment. Later on the Emperor Kiah Ching issued another imperial order for the final treatment; prohibiting its importation as well as its cultivation. The result was slight and the practice of smoking was reduced only to a certain extent at Canton. For, instead of selling opium at the port, the foreigners now imported it secretly at the mouth of the Canton river. The only difference was that the opium merchants no longer went to the factories and that they paid no more taxes, although they had perhaps to turn over a certain amount of irregular duty to the lower officials. In this way importation still continued in spite of the prohibition law.

The general feature of the Customs tariff. The most striking thing that prevailed at this time in the customs was that there was no distinction between regular and irregular acquisitions on the part of the officials. Laxity was found everywhere. The imperial government had published a tariff and sent it to its revenue officers with orders to levy duties accordingly. The latter, nevertheless, presumed on their own responsibility, to more than double the imposts and to leave the merchants entirely in the dark as to the payment of the legal taxes. The merchants of Canton had repeatedly applied for a copy of the tariff, and always received an evasive answer. In fact the official tariff itself

was not at all heavy. It was against the charge of the *con-soo* fund and some other irregular exactions of the officials, that the merchants protested. "Government taxation," writes Sir Robert Hart,¹ "has always and everywhere been of the lightest possible kind, and what are called 'squeezes' have been either legitimate collections other than the dues and duties (*sic.*) foreign trade tariffs published, or such variable amounts as traders have compounded for between their own offer and the sum the collector would consent to accept below the rate fixed by the tariff concerned." Another writer also said that in the beginning of the nineteenth century, the imperial tariff was very reasonable and "most articles could be imported without giving the inducement to smuggling."²

3. THE SECOND PERIOD, 1843-1885

The tariff after the Treaty of Nanking. The Treaty of Nanking which was put into effect on July 27, 1843, marked a new era in Chinese tariff history, inasmuch as it introduced a treaty tariff which was uniform in the sense that both imports and exports were to be taxed at the same rate, and at the same time preferential in the sense that special privileges and immunities were given to foreign, but denied to native merchants. Formerly the merchants had no knowledge of the amount of taxation levied, inwards and outwards, on his goods. Now the tax was strictly limited to the rate based on a uniform five per cent levy, specified in a tariff, which formed an integral part of the treaty. From inland taxation, too, which pressed so heavily on Chinese traders, the foreigners' goods were, and still are,

¹ Robert Hart, *Theses from the Land of Sinim*, p. 64.

² Rev. Charles Gutzlaff, *China Opened*, revised by Reed Anfrew, D. D., vol. i, p. 67.

exempt by payment of 'transit dues' not exceeding a very moderate rate,—a rate later on fixed at two-and-half per cent *ad valorem*. Hitherto, the Chinese government fixed the tariff for foreign trade, but now China's sovereign right regarding even internal taxation was, to a considerable extent, curtailed by the British policy of coercion.¹ Moreover, foreign merchants had previously no direct dealings with the customs, except for the payment of measurement fees on their ships. The charges on goods had been paid by the Hong merchants; on them fell the burden of the official, semi-official and non-official exactions, which they in turn passed on to the foreign traders. The Treaty of Nanking provided no machinery for any change in this process; but in later treaties, the foreigner was brought into direct relation with the customs, and, was thereby protected at every step.

The Treaty of Nanking. The duties under the tariff, drawn up in accordance with the treaty were partly specific but were based on the general idea of five per cent *ad valorem* for both imports and exports. A clause in Article X is of sufficient importance to be quoted in full:

And the Emperor further engages, that when British merchants shall have once paid at any of the said ports [five ports were then opened to foreign trade, namely: Shanghai, Ningpo, Foo-chow, Amoy and Canton] the regulated customs and dues, agreeable to the tariff to be hereafter fixed, such merchandise may be conveyed by Chinese merchants to any province or city in the interior of the Empire of China, on paying a further amount as transit duties, which shall not exceed . . . per cent on the tariff value of such goods.

¹ In the course of time the condition has become such that no Chinese authority has a right to claim any municipal taxes from foreign premises; and within the "areas reserved for foreign residence and trade" all taxes levied are solely for the benefit of such reserved area.

This was amplified by a declaration, signed on June 26, 1843, that the said transit duty "shall not exceed the present rates, which are upon a moderate scale." This tariff was also adopted with slight changes by the American and French. A "most-favored-nation" clause was included at that time, for the first time introducing into China the intricacies of European fiscal and commercial policy.¹

The failure of the Nanking Treaty. The Treaty aimed at the exemption from the arbitrary and vexatious system represented by the Hongs. The end was attained, but a new evil at once sprang into being. As to the actual condition of foreign trade in China since 1843, some idea can be obtained from the reports and opinions of the British consuls there. One of the most instructive of these is by Consul Alcock. In criticising the demand for further commercial privileges by the merchants, he draws up a most severe indictment of the conduct and policy of the foreigners as follows:

The worthless character of a numerous gathering of foreigners of all nations, under no effective control, is a natural reproach as well as a public calamity. They dispute the field of commerce with more honest men, and convert privileges of access and trade into means of fraud and violence. In this career of license, unchecked by any fear of their own governments, and protected, in a degree, by treaties from the action of the native authorities, the Chinese are the first and greatest, but by no means the only sufferers. There is no government or nation of the great European family that does not suffer in

¹ It was further agreed that should the Emperor hereafter from any cause whatever be pleased to grant additional privileges or immunities to any of the subjects or citizens of such foreign countries, the same privileges and immunities will be extended to and enjoyed by British subjects; but it is to be understood that demands or requests are not on this idea to be unnecessarily brought forward. Supplementary treaty with Great Britain on Oct. 8, 1843.

character, and in so far as they have any interests at stake in China, in these also both immediately and prospectively. This is the danger which has long threatened the worst consequences in wide-spread hostility and interrupted trade.¹

Mr. Alcock further alludes to the fraudulent practices on the part of foreigners, saying: "Foreign merchants, in direct customs-house relations with Chinese authorities, all more or less venal and corrupt, launched into a wholesale system of smuggling and fraudulent devices for the evasion of duties." Judging from other sources of information, this was the typical rather than the isolated condition. Chinese laws and the treaty stipulations were set at naught by force or fraud and the imperial revenue was defrauded, while smuggling became a most lucrative profession. The Treaty of Nanking, therefore, in one of its aspects at least, was a complete failure.

The need for revision of the treaty. In addition to the above reasons, the tariff became a pressing question about the year 1858. Business suffered from want of elasticity in a customs system rigidly fixed by treaty. The tariff had not kept pace with the fluctuations of prices. For instance, in the case of exports, while the tea merchants paid much more than the nominal five per cent, the duty on silk was far below that rate, mainly due to the rise in the price of silk. As to imports, while shirtings paid a specific duty which, while representing five per cent *ad valorem* on the basis of the prices in 1843, was equivalent in 1857 to over ten per cent. The duty on similar grey goods was about 7½ per cent. Grey T cloths, on the other hand, and dyed and figured shirtings paid duty *ad valorem*, nominally at five per cent, actually at about 4½ per cent. Between

¹ Mr. Alcock's statement can be found more fully in A. J. Sargent's *Anglo-Chinese Commerce and Diplomacy*, pp. 102-5.

1855 and 1857 the former type of goods lost, while the latter gained heavily. It was said that the rise in the effective duties was due partly to a fall in price, partly to the fact that inferior qualities were now imported, though they came under the same category as the superior for the purposes of taxation. On the whole, owing to the fall of silver and consequently the rise of foreign goods prices, the rate was much below five per cent.

The Tientsin Treaty, 1858. The Treaty of Tientsin was completed by the agreement as to the tariff and rules of trade, signed at Shanghai on November 8, 1858. The restrictions as to opium, cash, and grain were relaxed. The import of opium was allowed at a comparatively heavy rate of duty. British subjects were permitted to export copper cash and rice from one Chinese port to another under strict regulations, but export abroad was still prohibited. In a general tariff of imports, staple British manufacturers were treated with great moderation. The five per cent rate provided in the Nanking treaty remained the same but the number of commodities not subjected to duty was enlarged. In the case of imports, the idea of five per cent *ad valorem* was carried out in the specific duties; in other words, the tariff of 1843 was readjusted to correspond with the changes in prices. The export duties on tea and silk, however, were unchanged. The duty on silk was actually less than five per cent, but it could not be raised owing to French interests being involved.

New Concessions. Articles IX-XI contain the new concessions. British subjects were permitted to travel for pleasure or trade to all parts of the interior, under passports issued by their consuls and countersigned by local authorities. Niuchwang, Tangshan, Taiwan (Formosa), Swatau and Kiungchau (Hainan) were opened to trade. By the opening of the Yantse to British merchants, the new field

thus provided for their enterprise was greatly extended. Chinkiang was to be opened within a year, and also three other ports on the restoration of internal peace.

Rule 7 of the agreement dealt with the transit question. A fixed sum, payable at the port or at the first inland barrier in the case of native produce, was substituted for the former numerous and variable charges. A transit duty certificate was to be issued by the customs authorities and to be presented at every barrier station and viséd. Any breach of the rules, as by sale of goods *in transitu*, was punishable by confiscation. Henceforth goods, the genuine property of foreign subjects, were free from all charges whatever in transit, between any part of the interior and a treaty port in either direction on payment of a single fixed charge at the beginning of the journey, no matter how distant the destination. The provisions as to exports were similar. That China's tariff was thus, from the outset, exceedingly low was clear to any impartial foreigner.¹

Specific provisions of the tariff. The principal provisions in the tariff can be briefly set forth. Non-enumerated commodities were liable to a duty of five per cent on the value; *per contra*, articles supposedly for the sole consumption of the foreign residents were to be exempt from all duty. Those were chiefly gold and silver bullion, foreign coins, flour, Indian meal, sago, biscuit, preserved meats and vegetables, cheese, butter, confectionery, foreign clothing, jewelry, plated-ware, perfumery, soap of all kinds, charcoal, firewood, candles (foreign), tobacco (foreign), cigars (foreign), wine,

¹ An English writer said: "It can hardly be maintained that China taxed commerce heavily, by comparison with the practice of European countries at the time, and more particularly that of England in respect of tea. In fact, at this period the weight of taxation in China played but a small part in the determination of the quantity and character of her imports and exports." A. J. Sargent, *Anglo-Chinese Commerce and Diplomacy*, p. 129.

beer, spirits, household stores, ship stores, personal baggage, stationery, carpeting, druggets, cutlery, foreign medicines, and glass and crystal ware. The above paid no duty, but if transported into the interior, were, with the exception of personal baggage, gold and silver bullion, and foreign coins, to pay a transit duty of $2\frac{1}{2}$ per cent *ad valorem*. As there was no revision of the tariff for forty-four years, the Chinese exchequer must have suffered severely from the concessions.

Trade was absolutely prohibited in munitions of war and in salt, which was a monopoly of the government in China; the export of rice and other grain, and copper cash was prohibited; the export of beans and bean cake was also forbidden, but this prohibition was removed in 1869. Special restrictions were placed on the import of what was then the raw material of munitions of war—sulphur, saltpetre, and spelter. Weights and measures were fixed, and the old meltage fee on silver was abolished. The procedure to be followed in commuting the inland dues on foreign imports and on Chinese produce intended for export abroad was prescribed. Finally, a uniform system was to be enforced at all the ports.¹

The Convention of 1869. This Convention was provisionally signed by Sir Rutherford Alcock on November 23, 1869. It was the first attempt on the part of the British Government to secure for China the ordinary benefits of independent negotiation. Hitherto concessions had been extorted by force; and no corresponding privileges had been granted in return. The most-favored-nation clause in the various treaties merely expressed the intention of the treaty powers to insist on participation in any benefits extorted, on whatever excuse, by any one of them.

¹ This was based on the system of the inspectors of customs working at Shanghai from 1854, which developed into Inspector General of Customs procedure and collection.

The main difference between this Convention and the previous treaties, so far as the tariff is concerned, is shown in the third clause, which contains an important concession to British manufacturing interests. Cotton, linens and woollens imported by British merchants "shall pay both import duty and transit dues simultaneously at the time of importation". "China agrees that the above mentioned commodities . . . shall be exempt from all other taxes and charges whatsoever, in treaty port provinces." The intention of this was that throughout about half of China the scheduled goods were to circulate freely, irrespective of ownership, and without being subject to *likin* or any local or municipal tax whatever. In return the commutation duty of $2\frac{1}{2}$ per cent was to be *compulsory* instead of *optional*.¹ This arrangement was, moreover, calculated to do away, to some extent, with the scandalous sale of transit passes to native dealers. But the ratification of the new treaty was prevented by the almost unanimous disapproval on the part of the British merchants in both China and England. The chief trouble then was that the British merchants refused any conciliatory attitude toward the Chinese Government and believed in the policy of coercion, pure and simple.

The general situation. The memorandum drawn up by Sir Robert Hart, the Inspector-General of Maritime Customs, in 1876, in reply to a request from the Tsungli Yamen is the best comment on the whole situation. He summarized the defects of the existing system, especially from the point of view of commercial relations. In matters commercial and judicial alike, the principle running through past and present arrangements was the distinction

¹ According to the existing rule, the foreign importer could either pay his $2\frac{1}{2}$ per cent transit duty at the port of entrance or pay any inland tax later in the interior, as he chose.

between *persons* rather than *things*, with resultant jealousy and angry feelings on both sides. As far as the interference of the government in commercial questions is concerned, the various arrangements provided for one party only, with little or no regard for the idea of reciprocity.

The conditions necessary to the success of any new proposals were threefold: they must be suited to the locality, practicable from the point of view of customs administration, and acceptable to all the treaty powers. The foreigner was not content with the privilege given by treaty; he desired complete freedom for commercial and industrial enterprise throughout the whole of China, coupled with the principle of extra-territorial jurisdiction. But China had realized, in the course of years, the full implication of the principle of extra-territoriality and would strongly oppose its further extension. Here was the deadlock.

Then followed a summary of the complaints on both sides. In the matter of *likin*, the foreigner complained that transit passes were not respected. But in most cases of the refusal to respect certificates, there has been a strong ground for suspicion that the privilege was being misused for the benefit of goods not really entitled to such protection. A still more difficult question was raised by the claim of Chinese officials that goods which reached their destination were simply Chinese goods, and, as such, liable to any taxation which China pleased to impose. The foreign merchant complained that by this local taxation the advantages of the transit system were neutralized. But China, like other countries, needs revenue and must raise it from taxation. On the whole, the Chinese asserted that the foreigners employed their special privileges for the benefit of native traders and goods, thus defrauding the revenue and giving to a few traders an illegal advantage over the mass of their fellow-countrymen. In other words, the foreigner, having received

special privileges for the exchange of foreign for Chinese goods, had used his position to interfere with the strictly native and internal trade, in opposition to the whole system of native trade and taxation.

The Chefoo Convention. By the year 1875, the method of settlement by negotiation and mutual concession had received a check, while the principle of exacting privileges as a penalty had been revived owing to a local incident. This was the murder of Mr. Margary and the attack on the Indian Mission under Colonel Browne (British), in February, 1875. The foreign demand for reparation for this case involved the attitude of the Chinese Government toward its treaty obligations. Such were the circumstances in which the Chefoo agreement of September 1876, took shape.

It consists of three main sections. The first and second deal with the settlement of the Yunan case and the official intercourse respectively. The third section deals with trade. The British Government, after a lengthy discussion, was prepared to compromise on the question of the *likin* area at the ports and to agree to special arrangements for the import of opium; while the Chinese, in return, consented to open more ports and to allow steamers to call at certain additional points on the Yangtse. The transit system was to be unified and, as to imports, the privilege was to attach to the goods regardless of ownership. In 1883 negotiations were reopened with the Chinese ambassador in London. The British proposal was that *likin* on opium should be collected by the imperial customs, and that no further levy should be made until the second inland barrier was reached. The Chinese put forward the alternative proposition that there should be a uniform rate at all ports, freeing opium from all other dues whatever in transit. Finally the Chinese view prevailed and the opium trade in the interior was also restricted to Chinese subjects.

Duty on opium in this period. One of the important exceptions of the tariff rule settled by different treaties was the opium question. Both the Nanking treaty and the four treaties of Tientsin of 1858 were silent on the subject. But in November 1858, a mixed commission (British and Chinese) was appointed to discuss the revision of the customs tariff and opium was then inserted in the agreement at a duty of Tls. 30 per picul. This was done because the Chinese government needed a revenue which had for so long a time been evaded. At the same time, this article was included in the French and American tariff agreements. It was also recognized that opium was primarily an article of import which must be left to the unfettered discretion of the Chinese government to deal with; and the fifth of the rules of trade appended to the tariff reads as follows:

The restrictions affecting trade in opium, cash, grain, pulse sulphur, brimstone, saltpetre, and spelter, are relaxed, under the following conditions:

1. Opium will henceforth pay thirty taels per picul import duty. The importer will sell it only at the port. It will be carried into the interior by Chinese only, and only as Chinese property; the foreign trader will not be allowed to accompany it. The provisions of Article IX of the treaty of Tientsin, by which British subjects are authorized to proceed into the interior with passports to trade, will not extend to it, nor will those of Article XXVIII of the same treaty, by which the transit dues on it will be arranged as the Chinese government see fit; nor in future revisions of the tariff is the same rule of revision to be applied to opium as to other goods.

The next event in the history of opium in China is to be found in the Chefoo Agreement of 1876, by which the British government accepted in principle a proposal that inland taxation (*likin*) on the drug should be collected simul-

taneously with the import duty. This was made effective by an additional article signed on July 18, 1885, by which the *likin* was fixed at 80 taels per chest, in addition to the customs duty of 30 taels.¹ In 1890 an Imperial Edict was issued legalizing the cultivation of opium in China.

¹ The customs revenue in 1887 was five millions sterling, but one-fifth of the amount was from opium *likin* duty, now for the first time collected by the Imperial Customs. The precise amount of the opium *likin* was then Tls. 4,645,842.

CHAPTER II

SKETCH OF THE TARIFF HISTORY (*Continued*)

I. THE THIRD PERIOD, 1885-1906

The turning point of China's political and commercial relations with foreign powers, 1885. Up to this time China had dealt mainly with one power, Great Britain. After the French territorial aggrandisement in Annam in the eighties, however, there developed in China the 'spheres of influence' of different nations; and hence the system of differential tariffs in favor of a particular nation in a particular locality. The establishment of *inland* treaty ports (opened to France since 1885), in addition to the coast ports accessible only by routes controlled by a single power, clearly involved a revolutionary change in Chinese commercial relations. This departure from past practices was further emphasized by the Treaty of Shimonoseki, in 1895. The navigation of the Upper Yangtse, the right of foreigners to rent warehouses in the interior, to import machinery and to start manufactures in the ports, under foreign control and ownership—all had a revolutionary influence as a result of the universality of labor and capital.

The French concessions—land frontier customs. The Franco-Chinese war was ended by the treaty signed at Tientsin in June, 1885. The commercial arrangements contemplated in the French treaty were such as might seriously affect British interests in South China. This again caused an immediate reaction on the part of the British Government at the expense of the Chinese. According to the

French treaty, access to China from French territory was to be permitted only under passports, while the trade was to be limited to certain towns which were to be in the same position as the treaty ports on the coast. Goods passing between Tongking and Yunan and Kwangsi were to be granted a reduction on the general tariff, as fixed by treaty, but this concession was not to be applied to the frontier of Kwangtung where an open port already existed. In other words, differential duties were to be set up in favor of France in derogation of other foreign treaty rights.

A second commercial Convention in 1887, defined the special privileges contemplated in the treaty. Imports were to pay the tariff duties less three-tenths, and exports were to pay the duties less four-tenths; at the same time France was to enjoy, of right, all commercial privileges granted in any treaties regulating intercourse between China and the countries to the south and south-west of Annam. Here was not merely a case of extorting concessions by force—a recurrence to the usual old-fashioned method—but the introduction of a novel principle of securing privileges for one nation alone instead of for all treaty powers alike.

The British counter act. Following closely the lines of the French agreement discussed above, the British also obtained from China similar special and local arrangements. Besides the Convention of 1886, we find in 1890 and 1893 agreements as to opening trade, and providing for the residence of British officials at Yatung, while, in 1894, the Convention of 1886 was completed by an elaborate arrangement dealing with the rectification of the frontier and the organization of the overland trade. The Chinese duties were to be those of the general tariff, less three-tenths on imports and four-tenths on exports; transit passes were to be issued as at the treaty ports, while China might appoint a Consul at Rangoon and England one at Manwyne. A still greater innovation was

introduced in 1897, namely the opening of the West River to seaborne trade, Wuchau being declared a treaty port. It was deemed by the British as the only effective reply to the French advance in the south; since it was calculated to prevent the diversion of the trade of the hinterland from Hongkong to Tongking, by providing water-transport as an alternative to the French railways.

The Treaty of Shimonoseki, in 1895. This treaty ranks high in the great series of general treaties which have determined the commercial relations of China with the rest of the world. These privileges were extorted as the penalty of an unsuccessful war. Not only did the treaty initiate a far-reaching change in the internal economy of the Empire but the essential conditions of the foreign commerce of China were profoundly modified. The navigation of the upper Yangtse, the right to rent warehouses in the interior, to import machinery and to start manufactures in the ports, under foreign control and ownership—those were the privileges which, now, China, stripped of her territories and revenues, was compelled to grant to the foreign subjects.

The Japanese War of 1895 was indirectly responsible for another phase in the growth of relations between China and foreign powers, especially with reference to the customs management or control. The war indemnity to Japan gave rise to the British loan, which led to the security of the customs. In the winter of 1897, negotiations were on foot for a loan, guaranteed by the British Government, which would enable China to liquidate the Japanese indemnity. The security for the loan was to be the native and maritime customs, with the salt tax and *likin*. The loan was finally arranged with the *likin* as security, under the control of the Inspector-General of Maritime Customs.¹ In addition

¹ Sir Robert Hart, the Inspector General, found it impossible to take

China had to make another assurance that the Inspector-General of Customs should be an Englishman so long as England should maintain her preponderance of trade. Thus China learned by sad experience that the friendly offices of the foreigner may be as dangerous to her interest as his open hostility.

The Boxer Protocol. By the Boxer troubles of 1900, the financial condition of the country was rendered still more deplorable. China had to pay the largest indemnity ever recorded. There was, at the moment, a considerable deficit in her budget, largely caused by the allocation of about a quarter of the existing revenues to the liquidation of debts already incurred. It was hardly possible in the existing state of Chinese credit to pay off the indemnity of over sixty millions in a lump sum. The problem of the diplomats was to draw on the undoubted resources of the country without involving her in immediate bankruptcy. The available assets of China were represented by the maritime and native customs, the *likin*, the salt gabelle and the land tax. Of these, the land tax was variable and often remitted, while the abolition of *likin* had long been recommended by both the foreign and native commercial interests, and the reform of the salt gabelle was not easy.

The natural course to follow was then the revision of the customs tariff. Some of the powers, notably Russia and Germany, pressed for an effective ten per cent customs duty; but to this the British strongly objected, owing to the preponderance of their trade in China. Finally, the security for the indemnity accepted was the balance of the imperial customs,

immediately the collection of the *likin* on general merchandise, as it would need several hundred Chinese-speaking Europeans; he could only arrange for the remittance by the existing native collectors. Hart, to the Hongkong and Shanghai and Deutsche Asiatische Banks, March 11, 1899.

raised to an effective five per cent, together with the native customs, now to be administered in the open ports by the imperial customs officials, and the salt gabelle, in so far as these sources of revenue were not already earmarked for the service of foreign loans. The net result was further to increase the foreign control over China's finances and to introduce Western methods for the Chinese internal administration.

The urgent necessity for the revision of the existing tariff. Until this time, there had never been any revision of tariff since 1858, and consequently the specific duties had become absurdly erratic. This was shown by "the Statistical Secretary's List of Values," issued by the customs in 1902, on which the latter accepted duties, pending the completion and publication of the new tariff, which was to be based on the average values for three years 1897, 1898 and 1899. When the duties were fixed some forty years before, they were intended to represent an effective five per cent on the value then current. How far they had drifted away, upward and downward, from this level can be seen by a cursory examination of the statistical secretary's list. On the first four pages, among the duties then paid, there were ups as well as downs from the five per cent level. It appears that not a single article liable to specific duty on page 5 had paid as much as five per cent. The highest percentage was 3.85 per cent on cloves; the lowest 0.06 per cent on imitation coral. On page 6 and 7, there is further evidence of the heavy loss the Chinese revenue had been sustaining. On these two pages, with the exception of two or three articles which paid either a little above or below the five per cent duty, all the rest paid far less than that rate; feather fans paying only 0.58 per cent. On pages 8 and 9, the story is repeated. Leather trunks were the articles on pages 10 and 11 which paid as much as five per cent, while rhinoceros

horns got off with 0.04 per cent. This was the situation in which the Chinese tariff had been for many years, thus showing the absurd rigidity of a treaty tariff.

The revision. The revision was restricted by the treaty to the alteration of the tariff only so far as to bring it up and down, as the case may be, to a five per cent level upon the existing prices. Any idea of raising the *ad valorem* rate above five per cent was precluded by the China-Japanese commercial treaty of 1896, which had fixed the rate up to 1906. Further, the revision of 1902 applied only to import duties and to what was known as the "duty free list" attached to the tariff.¹ No revision was made for the export tariff. Furthermore, after 1902, the main part of the tariff was to be changed from *ad valorem* to specific duties. Only the minor commodities (imported)—about 240 kinds of goods—are still subjected to *ad valorem* duty. To-day the schedule for the export duty is simple and brief, but all the unenumerated goods must be taxed specific on the *ad valorem* basis of five per cent.

The Mackay Treaty. The British Commercial Treaty signed at Shanghai in September 1902, drawn up in compliance with the clause in the Protocol of 1900, has become known as "The Mackay Treaty"; for it was Sir Jas. L. Mackay who took up the negotiation with the Chinese government. In the light of the tariff arrangement, the treaty, especially the Article VIII, has become very important. In the preamble which gives the essence of the whole article, the Chinese government recognized the defects of the *likin*

¹ Art. VI of the Protocol stipulated that, in return for certain concessions, the Powers had consented to the assessment of customs duties on goods imported into China by sea on the basis of an effective 5 per cent of the value of such goods, including articles hitherto admitted free of duty, with the sole exception of rice, cereals, and flour of foreign origin.

taxes and expressed its willingness to discard completely this means of raising revenue. "The British government, in return, consents to allow a surtax, in excess of the tariff rates for the time being in force to be imposed on foreign good imported by British subjects and a surtax in addition to the export duty on Chinese produce destined for export abroad or coastwise." It was also provided

that in no case shall the surtax on foreign imports exceed the equivalent of one and a half times the import duty leviable in terms of the Final Protocol signed by China and the Powers on the 7th day of September, 1901; that payment of the import duty and surtax shall secure from foreign imports, whether in the hands of Chinese or non-Chinese subjects, in original packages or otherwise, complete immunity from all other taxation, examination or delay: that the total amount of taxation leviable on native produce for export abroad shall, under no circumstances, exceed $7\frac{1}{2}$ per cent *ad valorem*.

This makes the total import duty the equivalent of $12\frac{1}{2}$ per cent.

The rest of the article deals with the methods of administration. As compensation for the inevitable loss of internal revenue, China may impose a consumption tax on articles of Chinese origin, not intended for export; but this must not affect the immunity of foreign goods or native goods for export. "The fact of goods being of foreign origin shall of itself free from all taxation, delay, or stoppage after having passed the customs-house." An excise of ten per cent is to be charged on all machine-made yarn and cloth manufactured in China, whether by foreigners at the ports or by Chinese anywhere in China, and the same principle is to apply to all other products of foreign type turned out by machinery. Thus, not only is China forbidden to distinguish between one foreigner and another,

but she is not even at liberty to follow the almost universal policy of the Powers by granting superior advantages to her own subjects. This is the latest attempt on the part of foreign Powers to exact special privileges by force and leads to still further inroads on Chinese sovereignty. But owing to the lack of unanimous approval of other Powers, no progress has been made toward the provision of the abolition of *likin* and the increase of the tariff.

2. THE FOURTH PERIOD, 1906—TODAY

The awakening of the Government. Taught by the dire experience of many years under conditions so subversive of her sovereign authority as an independent state, China seemed now to have awakened, longing gradually to remove the onerous and humiliating provisions of the treaties.

There were then signs that she was realizing the necessity of moving with the times. In the first place, the impulse to reform on the part of the government in 1906 was so strong that an Imperial Edict was issued, providing for the complete prohibition of the cultivation of poppy within ten years. This great moral movement led to the immediate response on the part of the British government to restrict export from India by one-tenth in each year.

In the second place, the government, on the path of reform, reached such a point as to announce the appointment of T. E. Tieh Liang and Tang Shao-yi as the Comptrollers-General of Imperial Maritime Customs, to supervise the whole customs service. Leaving aside the question of maturity concerning this action, it has shown with what anxiety the government cherished the desire to assert the claim to that right enjoyed even by minor Western nations, the right to determine for themselves the conditions of foreign intercourse. In 1908, a customs college was established at Peking to train Chinese for customs service. In Sep-

tember, 1909, the government proposed that the Ministry of Finance, with the new Shui-wu-chu or the Bureau of Taxation under it, should be invested with full control of all customs affairs in the Empire to ensure uniformity of power. All this demonstrates the attempt of the Chinese government since 1906 to secure the control of the maritime customs, which is still under foreign management.

In the third place, the government has become more determined to abolish the *likin* taxes. After the revolution, the Nanking government succeeded in getting rid of these taxes in some of the Southern provinces. Their later recovery was due to the crushing need of revenue on the part of the government and to the difficulty of finding substitutes. The policy of the present government is seen in President Yuan's speech before the National Council on April 29, 1912. Among other things, the president said, "We shall immediately negotiate with the treaty Powers for the increase of our customs duty. On the other hand, the *likin* taxes will be abolished and the export duties increased". In recent years, the government has negotiated with different powers and oftentimes received favorable replies. But for the European war, which has stopped all ordinary diplomatic dealings, the negotiations concerning the abolition of *likin* and increase of tariff would probably have gone further.

In the fourth place, the government has undertaken to abolish or to reduce the duties on native products. Some time ago, antimony and other mines were given the privilege of exemption or reduction in transit and export duties. Chinese books and maps have also been exempt from the transit dues. Since October, 1914, all Chinese tea for export has received the reduction of export duty by the amount of Tls. 0.25 per picul. In January, 1915, permission was given to "The Yangtse Manufacturing Co., Ltd." at Hankau that all the products of that company for ex-

port should be exempt from export duty and *likin*. The term of exemption extends from February 1, 1915, to January 31, 1916, special reduction of export duty being extended to seven kinds of native products, namely, straw braid, mats, figured cloth, figured handkerchiefs, figured grasscloth, hair nets for women, and preserved fruits. This is the beginning of China's adoption of a fixed economic policy.

In the fifth place, the government has shown uneasiness regarding the special conditions existing in the frontier customs in Yunnan, Kwangsi, Manchuria, and so on, where extra reductions of duty have been given to foreign importers. The removal of these conditions is now under discussion. These attempts can be explained by the fact that after 1900 public opinion in China has been better informed. Education has impressed upon the minds of many Chinese a feeling that in matters in which China differs from the West she might be considered as occupying a position of inferiority, and this feeling has made them sensitive to criticism and anxious for reform.

Opium arrangements. One of the principal achievements to the credit of China is the suppression of opium importation as well as of its cultivation, in spite of the immense loss in revenue. Of course, the British government must also be credited for its prompt response to the demand for moral support in the movement, by agreeing with China, in December, 1906, to restrict the export from India by one-tenth every year. The agreement was, however, to be in force only for three years, after which the continuance was to depend upon the extent to which China had made effective her reduction in the production of opium. At the end of the three years, it was found that the cultivation of poppy had been diminished in China even beyond the stipulated rate, and so the British government, on May 8, 1911,

signed another agreement by which continued coöperation between the two countries was assured. The import from India to China in 1907 had been taken as being 51,000 chests and was reduced by 5,100 chests every year from 1908 to 1910. The new arrangement provided for a continued reduction at this rate for the years from 1911 on to the end of 1917. It was further agreed that Indian opium should not be conveyed into any province in which the production and the import of native opium had been entirely suppressed, and that the tax on Indian opium should be increased from Tls. 110 to Tls. 350 per picul, if the Chinese government would levy an equivalent excise tax on all native opium. Further, in February, 1909, an international conference was held at Shanghai, acknowledging the sincerity of the government of China in its effort to suppress the vice and urging the governments represented in it to adopt regulations which would aid China in accomplishing her declared purpose. In January, 1912, a second international conference was held at the Hague, at which the powers generally agreed that they should enact laws and regulations for the control of the production and distribution of raw opium; that they should take measures for the suppression of the manufacture of, internal trade in, and use of prepared opium, and should prohibit its import and export, and so on.

In 1911, China even asked that instead of a gradual decrease extending over seven years, England should terminate it as soon as China might be able to suppress entirely the production of native opium. There was complete understanding as to this proposal. While the Indian government, by this arrangement, was facing a large shortage of revenue, China was prepared to sustain a still greater relative loss. There was, however, some relief. The consolidated duty and tax on Indian opium was then equal to 110

taels per picul. This was the duty when opium was worth lb. 100 per picul, but the value of opium had risen to lb. 520 per picul. Recognizing the altered condition, the British government permitted China to increase the duty to Tls. 350 per picul. In the middle of 1914, fourteen or fifteen provinces, some of the most populous in the Republic, were declared, after strict searching and investigation by British officials, to be absolutely free from the production of opium. On account of this wholesale suppression of Chinese opium, the British merchants made enormous profits by monopolizing the opium market and putting up the price of the 23,000 chests in the treaty ports in 1913, while probably three-fourths were later sold at very high prices. There are at present, however, only three provinces to which Indian opium is accessible. Shanghai and Canton will be the last ports to be closed to the traffic.

To get some idea of the consequent deficiency on the Chinese revenue, the following figures are instructive.

<i>Third Quarter of:</i>		<i>Opium Duty and Likin Together.</i>	
1912	.....	Hk. Tls.	1,800,000
1913	.....	" "	1,312,100
1914	.....	" "	496,153

The revenue for 1914 was thus only about one-third of that for the corresponding period of 1913, and one-fourth of that for the similar period of 1912.

The revision of present tariff is needed. That China's claim to the revision of the present tariff is based on fairness is seen from the evidence of the material loss suffered by China, given by Sir Robert Breden, formerly Acting Inspector-General of Chinese Customs, in his "China: Tariff Revision and Inland Taxation Questions Allied Thereto" (pp. 3-5). He has taken the figure as to the value of the entire foreign import trade of China during the year of 1912 compared with the total import duty paid in the same

year and has shown how much was the actual loss to the Chinese revenue. The value of the entire trade in the said year was roughly £71,000,000, or in Chinese figures, Hk. Tls. 473,097,031.

From this, however, one must deduct the value of foreign opium imported which is not taxed on a 5 per cent basis but pays a special duty.....	Hk. Tls.	47,706,774
The balance represents general cargo which should pay duty at 5 per cent <i>ad valorem</i> , amounting to..	" "	123,797,169
If this cargo had paid the legitimate full 5 per cent, the duty would have amounted to	" "	21,189,858
To get at what it actually did pay, we have to take the total import duty actually paid on all foreign cargo	" "	16,045,202
And deduct from it the duty collected on opium....	" "	1,781,007
From which it will appear that the total duty paid on import of general cargo was.....	" "	14,275,764
Deducting this sum from what would have been paid at 5 per cent <i>ad valorem</i> , <i>i. e.</i> , 21,189,858, we find roughly that the incidence of the actual tariff as compared with the legitimate 5 per cent <i>ad valorem</i> caused a loss to China of, in round numbers.....		£1,054,400

The author of the above is also aware of the fact that it is not quite accurate "to take this figure as an unjustified loss because there is a certain proportion of the foreign trade of China which legally pays less than five per cent—*i. e.*, the trade across the land (and, in the case of Japan, the Korean river) frontiers of Russian Siberia, French Tonquin, British Burmah and Japanese Korea". But by the similar process of estimation, it was found that Hk. Tls. 5,875,141 were lost on the maritime, and Hk. Tls. 1,038,953 on the frontier trade, "of which latter, however, we must admit Haikwan Taels 594,768 as having been lost legally even if not legitimately". To show how particular commodities have evaded their legal duty of five per cent *ad valorem*, grey shirtings and sheetings were chosen under the item of cotton goods. Their value was shown to be Hk. Tls.

22,337,164, and if assessed at a five per cent *ad valorem* duty they should have produced Hk. Tls. 1,116,858 of tax. But the actual duty they paid was believed to be Hk. Tls. 691,708, or less than they ought by Hk. Tls. 425,150. In the same way, the item of jeans underpaid Hk. Tls. 46,803; drills, Hk. Tls. 92,585; shirtings, Hk. Tls. 272,587, and yarn, Hk. Tls. 888,718. This system of calculation can be worked out to a great length. But, "seeing that China is losing at least Haikwan Taels 1,725,843 on five items alone of her foreign trade a pretty good case for revision seems to the writer to have been made out already".

3. THE PRESENT PROBLEM

The five per cent basis. The present problem is twofold: one is to revise the tariff to an effective five per cent *ad valorem* basis in accordance with the original understanding; the other, to arrange for the abolition of the *likin* and for an increase of import duty following the terms settled in the Mackay treaty of 1902. The situation has been made clear by Mr. Aglen, the Inspector-General of Customs, when he said that to revise the customs duties is one thing; to abolish *likin* and to increase the tariff being another. The two propositions must be separated. The claim for a readjustment of the customs duties by China is undeniably valid, and there should be no objection to it on the part of foreign governments. As to the abolition of the *likin* and the increase of the tariff, it affects the commercial interests of different nations in China adversely and some of the countries can not easily agree to it.

Even in China, it is a doubtful question whether or not the revenue from all other auxiliary taxes can sufficiently replace the yield of the *likin*. So far as this is concerned, the Chinese government should be very careful, even if all the foreign governments show their approval. For the pres-

ent, the first aim must be to assure an effective five per cent duty, a proposition that is not only modern but one that can be easily accomplished. The work of reform must start with the investigation of general prices. During the negotiations, the government should make it clear that this step is not opposed to the treaties in any sense whatsoever. For, inasmuch as the prices of commodities are quite different now from former days, it has become necessary to adjust the duty to the changed prices. The duty on those commodities whose prices have gone up must be increased, while the duty on those whose prices have fallen must be decreased. This is the suggestion of the Inspector-General, which the government has taken into consideration. In January, 1914, the decision of Great Britain, the United States, Belgium and the Netherlands was to accede to China's request that the import duty be modified so as to yield an effective five per cent. Later on, however, the Russian, Japanese and French governments attempted to ask special privileges even for this revision.

The abolition of likin and the increase of the tariff. In December, 1908, the Wai-wu-pu or the Board of Foreign Affairs sent a circular despatch to all the foreign representatives requesting the opening of a discussion of the question of the abolition of *likin* in return for an increase of the customs duties as provided by Article 8 of the British treaty signed on September 5, 1902, and Article 4 of the United States treaty of October 8, 1903. The circular did not have much effect on the problem. In 1914, China again brought up the question and England, Germany, the United States and Austria were the first nations that approved the proposal. Italy, Russia, Portugal and Belgium, Japan and France followed. But the answers from Germany, Russia, France and Japan were conditional.

Since then this question time and again has been brought

up by the Chinese government without reaching any solution. The European war has stopped the process of the discussion.

For the preparation of future discussion, the Chinese government some time ago undertook to investigate (1) the value of goods for a revision of the *ad valorem* rate; (2) the exact amount of income from *likin* in the different provinces in order to secure a substitute, in the case of its complete abolition, and (3) the possible arrangement of levying new taxes. That little or no progress has been made in this matter and that the foreign merchants are beginning to be indifferent, if not reluctant to see this done is partly because Article 8 of the British treaty is only one of the many articles that must be considered in bringing about fiscal reforms, and partly because the *likin*, since the increase of open ports and the building of railroads, is no longer a trouble to foreign merchants. Every intelligent person, however, must know that there is a certain point beyond which taxation tends to curtail consumption. The correct policy of the powers, from the point of view of their own commercial interests in China, is to increase the purchasing power of the Chinese. But so long as the *likin* taxes are in existence, the volume of trade can never be large. If China is serious in the attempt to abolish the *likin* without replacing it by some effective substitute, she will have a very difficult task before her. When one considers what great efforts will be necessary to bring about even the fundamental changes already stipulated for in the treaties, the immensity of the task becomes apparent.

CHAPTER III

THE POLITICAL ASPECT OF THE CHINESE TARIFF

I. THE STATUTORY TARIFF

The Tariff Autonomy. The regulation of the tariff belongs to the legislative power of a state. Every civilized country includes the law of tariff regulation as a part of the customs law. The law usually stipulates the limitation or prohibition of goods to be imported, the schedule of goods to be taxed and the arrangement of the tariff rates. Generally speaking, the basis of a statutory tariff rate lies in the freedom from interference by tariff treaties. The right to regulate the tariff schedule is based on the right of taxation enjoyed by every sovereign state. The only difference between customs duties and other taxes is that the latter are collected within the domain, while the collection of the former goes beyond it. So, except in the case of reciprocity provisions, where the tariff rate is fixed under mutual agreement, the self-regulation of the tariff is a necessary manifestation of a nation's territorial right, in which the employment of the economic as well as of the police power is implied.

“En vertu de la souveraineté absolue qui lui appartient sur le sol qui relève de lui,” says M. Despagne, “chaque État peut limiter comme il l'entend ses rapports commerciaux au point de vue internationale, soit en privant de certains avantages tous les pays ou quelques-uns seulement soit en donnant des faveurs aux uns et en les refusant aux autres, soit encore en

paralysant plus ou moins l'entrée de produits étrangers par un système douanier prohibitif." ¹

Is it a general practice that all the so-called civilized nations are tending to close their countries against international free commerce by more or less prohibitive tariff systems? From the standpoint of law, is it not a life-or-death question in backward countries, to restrict international commerce more or less, according to their stage of economic and political evolution?

Kinds of statutory tariffs. There are two kinds of statutory tariffs, single and double. (1) The standpoint of the single statutory tariff is subjective rather than objective. Under this system the nature and origin of imported goods are not considered, nor are the advantages and disadvantages of the country which produces them. Each country takes into consideration only its own revenue or the protection of its own industries, and exercises freely its independent right of tariff making without any restriction through treaties with foreign powers. It has the right to do what seems best for itself. The advantage of the system lies in its simplicity and its conformity with the nature of the tariff right. The fact that England with only forty classified imported articles under eighteen schedules receives annually more than £30,000,000 is due to her single statutory tariff with absolute freedom in enforcing it.

(2) In the double statutory tariff system, there are generally two rates: the maximum and the minimum rates. That is to say, in this system a country adopts two different tariff rates at one time—one maximum and the other minimum. The minimum rate applies only to the goods from those countries that have special treaties with her, and in those treaties the most favored nation clause is found. Goods im-

¹ E. Despagnet, *Cours de droit international public*, 4th ed., p. 236.

ported from all other countries must pay the maximum rate. Sometimes, however, on account of some of the home productions which most need protection, no minimum but maximum rates are provided for these particular imports. This system was first adopted in Spain and then followed by France, Germany, Russia and other countries.¹

2. THE CONVENTIONAL TARIFF

The conventional tariff of a country is usually a result of its commercial policy. According to M. Paul Cauwès, in his "*Cours d'Economie Politique*", modern states, in the matter of international commerce, are less dependent than in all other branches of national legislation, commercial policy being closely related to international politics. The reciprocal concessions are often of mutual benefit to the parties concerned. The tariff power of a state is often

¹ In 1877 Spain first adopted this system. Before long, however, she was compelled by France to reduce the tariff on wine. In 1892 France adopted a maximum and minimum tariff. But the maximum rate was to apply only to agricultural products. In 1895 France concluded a treaty with Switzerland, whereby the tariff rate was reduced below the minimum point in the schedule and Parliament refused to pass it. The result of the tariff struggle between France and Switzerland was the revision of a part of the French tariff law. Between 1891 and 1892 Germany also concluded treaties with Austria, Italy, Belgium and Switzerland in which the tariffs between Germany and these countries were fixed by mutual consent. Germany was to tax at the rate agreed upon agricultural goods imported from the contracting nations, who in return were to tax manufactured goods from Germany at the same rate. But in 1902 the agricultural party in Germany began to oppose the policy of their government of giving special favors to manufactured products at the expense of the agricultural interests. Then a bill was passed by the Bundesrath to fix the minimum rate of the tariff beyond which the government was not allowed to go. Russia in 1893 also adopted the system by making the original statutory tariff rate as the minimum. With the additional rate of 2 or 3 per cent, it became the maximum. The following year saw a treaty concluded between Russia and Germany, fixing their tariff rates below the minimum. So there are now three tariff systems in Russia.

limited by treaties with other nations. This system is called the "régime conventionnel" and the customs tariff therefrom resulting, "tariffs conventionnels". Of the customs conventions there are two types: the one is with "tariff annexe" and the other with "tariff minimum". By the customs convention with "tariff annexe," is meant a convention of which the tariff to be applied forms an integral part. It can not be modified so long as the treaty itself remains in force. The customs convention with minimum tariff means a treaty by which a state consents to grant the lowest tariff to another state which concludes the treaty with it. But nations always, except in the case of a consolidated minimum tariff, reserve the right of modifying the schedule.

What is the customs tariff in China? It is a general and uniform "tariff annexe," which applies to all the treaty powers alike. Thus, while the foreign nations have enjoyed China's extremely liberal régime and have taken away from her all the tariff rights, China cannot secure the corresponding customs privileges from them. For instance, France always imposes the general tariff, namely, the maximum rate on most of the important goods from China without giving to her in return any privilege. This is the heaviest burden which has been imposed upon China by the "open door" policy. China is not only obliged to open many of her cities to foreign commerce, but she is also deprived of the right of making her own tariff measures. Her door is open, but that of the other countries is closed to her! It is true that these treaties of commerce can be revised at the end of ten or twenty years; but as a matter of fact the possibility of revision has been merely an illusion.

3. THE TARIFF POLICY

China must have a tariff policy. The economic conditions in China to-day represent the transitional period from local to national economy. In order to hasten the economic development of the country and to protect, to a certain degree at least, the home industries, a tariff policy is necessary and even vital.

From the political standpoint the adoption of a tariff policy will confer on China at least the following advantages: (1) the centralization and unification of the fiscal administration of the country by removing all the irregularities of local taxation, (2) the assurance and manifestation of its territorial right as an independent nation, (3) the increase of revenue for the central government, (4) the power of retaliation in the case of adjusting wrongs with, and of reciprocity in the case of returning favors to foreign governments, (5) the protection of certain industries for the purpose of national defence and (6) the exercise of the power to prohibit or to restrict certain commodities which are undesirable and injurious to the nation.

In China the terms, "tariff policy" and "protection" are of only late creation. Since 1842, there has been no statutory tariff. The present tariff has been determined or dictated by foreign powers. Although the customs tariff in China is a national tax system, its operation has been checked in certain cases by conflicts between national and local authorities, and this conflict has given rise to many troubles and inconveniences to the central government as well as to the customs department. The exercise of the tariff power has always been handicapped by the existence of extraterritoriality in the foreign concessions and settlements, and consequently the evils of smuggling and illegal practices of the foreigners in China have never been suc-

cessfully checked. The customs revenue is extremely insignificant when compared with that in the countries in Europe and America. And it is to be noted that the tariff revenues in China include both import and export duties. Before 1890, the total annual collection from the export duties always exceeded that of import duties. To-day the total collection of the import duties amounts to only about five per cent of the entire revenues of the country.

The idea of reciprocity has never found its way into the Chinese tariff arrangements. The treaties which contain tariff stipulations have always been concluded by force. With reference to the munitions of war, although there are certain restrictions regarding their importation, the government has never been able to adopt a policy of protection for the home manufacturers. As to the control over injurious commodities, China has with great effort succeeded in checking the importation of opium and morphia, but so far there is still no attempt to check or to lessen the importation of foreign tobacco and liquor and other things which are either undesirable or harmful.

4. FAILURE OF THE DIFFERENT TREATIES OF COMMERCE

General statement. These failures may be classified according to their judicial and political nature or their consequences to the country. Those which concern China's sovereign right are as follows:

- a. The tariff enforced by treaty.
- b. The concessions in the open ports and the opening of the territorial rivers to foreign navigation.
- c. Extraterritoriality.

From the standpoint of administrative procedure the failures are:

- a. Absence of the idea of reciprocity in various treaties.
- b. Introduction of the most-favored-nation clause in the absolute sense.

5. CHINA'S TARIFF ENFORCED BY TREATIES

The development of the conventional tariff in China. China lost her tariff autonomy after the Opium War of 1842, when she was compelled to give a number of privileges and immunities, including some concessions on tariff right to foreign subjects in her territory. By the Tientsin Treaty of 1858, further privileges were exacted by the British government from China, namely, extraterritoriality, the interior water transportation as well as the tariff right. By that time the maritime customs of the country began to be under foreign management. Since then the tariff rate has never been regulated by the central government. Whenever revision of treaties concerning the customs sureties took place, it was the Inspector-General of Customs, who was and still is a British subject, on the one side, and the foreign representatives on the other, that made the arrangements. The Chinese government has had no tariff policy. It was thought that, in order to show a friendly feeling toward foreign powers, the tariff stipulations might be overlooked. This was especially true before the Taiping rebellion when the government did not need much revenue and never had the idea of taxing foreign trade heavily. But they failed to understand that it is one thing to tax foreign goods lightly in order to show the good-will of the government and it is quite another to give up the right of regulating the tariff entirely. It is this attitude that is responsible for the absence of reciprocity in the various treaties which China has contracted with the foreign countries.

The causes of the foreign control of the customs tariff.

(1) The negligence of the Manchu government. This is shown in the fact that the maritime customs used to be called "foreign customs" as against the old regular native customs. The thought then was that it was the foreigners' business, and their business only, to deal with the merchants

and their imports. This idea was at the bottom of the foreign control of the customs from the beginning of commercial intercourse with the West.

(2) The ignorance of Western business methods. According to the Tientsin Treaty, the Chinese government was not obliged to employ foreigners in the customs. But, owing to the difficulties of suppressing the practice of wholesale smuggling and other fraudulent actions on the part of foreign merchants, the control of the customs was gradually put into the hands of foreign employees in order to check these practices and to secure the efficiency of the service.

(3) The aggressive policy of the foreigners. The position of the Inspector-General of the Customs has been an object of envy to the foreign powers. Owing to the preponderance of British trade, the post was assured to the British for a long time to come by the agreement of 1899. The security of the customs revenue for the foreign indemnities and loans has rendered the foreign control of the customs more deeply rooted. The foreigners now, especially the British, control not only the organization and administration of the customs department, but also the appointment and removal of all the officers in the service. Even the documents and records of the customs were, until recently, kept in the English language entirely. No parallel to such conditions can be found in any other country except in Japan before 1899, but even there the conditions have never been so deplorable.

6. THE CONVENTIONAL TARIFF IN JAPAN

The Japanese tariff since the Restoration, 1869-1897. Mr. Yukimasa Hattori has discussed the situation in the following brief statement:¹

¹ Yukimasa Hattori, *The Foreign Commerce of Japan Since the Restoration*, pp. 14-15.

The economic situation of the country at that time was deplorable. Compelled by force of circumstances, either knowingly or unknowingly, Japan entered into treaty relations with the West under conditions not only perilous to the material welfare of the country, but even subversive of her sovereign authority as an independent state. By the tariff convention of 1866, the whole schedule of duties was revised and rates fixed on the average at five per cent on all commodities exported from and imported into Japan. The Japanese government was "desirous of affording a fresh proof of its wish to promote trade and to cement the friendly relations which exist between their country and foreign nations." Having thus surrendered, or rather been deprived of its tariff autonomy, the nation found itself helpless to protect its difficulties against the competition of western skill and capital. . . . Keenly alive to the situation, the Japanese government repeatedly petitioned the Powers for the removal of the onerous and humiliating provisions of the treaties, but always in vain.

Moreover, with the existence of extraterritoriality in Japan at that time, the foreigners were beyond the control of her laws. Speaking of the helpless condition of Japan at that time, Mr. House writes,¹

For wrongs inflicted upon a Japanese by a stranger redress can be claimed only from a consul, who in most cases would scoff at the idea of considering any interest but that of his countryman. By far the greater number of the consuls are themselves trading and speculating adventurers, and are not above making use of their official opportunities to extort plunder in every direction. Thus it is that Japan can take no forward step in prosperous development.

There are at least three points of resemblance which led to the conclusion of these detrimental tariff treaties in

¹ E. H. House, an article on "Foreign Jurisdiction in Japan" in *New Princeton Review*, 1888, vol. v, p. 217.

Japan as well as in China: (1) that the treaties were concluded after military defeat, (2) there was civil war in both countries when those humiliating arrangements were effected, and (3) both the Japanese and the Chinese at that time were not informed as to Western business methods.

The Japanese tariff since 1897. After the new treaty of March, 1897, the Japanese government published for the first time the statutory tariff (Imperial Decree no. 14), although a part of the system still remained conventional. The conventional tariffs are still restricted by the treaties, but Japan could now adopt a statutory law governing those tariffs which were not subjects of international agreements. Moreover the conventional tariffs then covered only a part of the imports. So it was hoped that the statutory tariff might be considered as the rule, and the conventional tariff as the exception. In 1911 it was found that the conventional tariff remaining unchanged covered only 82 articles, while the whole schedule of the Japanese tariff contained over 500 articles. Consequently, as was hoped, the statutory tariff had actually become the rule and the conventional tariff the exception. It should be noted however that most of the articles to which the conventional tariff applies are very important imports.

Generally speaking, the tariff, since 1899, is a great deal better than the earlier conventional tariff; but there are still many defects. For one thing, the renewed treaties are still one-sided rather than mutual in nature. For instance, by giving to Great Britain, Germany and France a conventional tariff for some of their important exports, Japan has got nothing in return but the most-favored-nation clause in her treaties with these countries. Moreover, the goods imported from the European and American countries are not only subjected to

the conventional tariff, but they pay, comparatively, only a low duty. Owing to the pressing necessity of increasing revenues, the Japanese government has resorted to raising the statutory tariff from time to time, but the conventional tariff can not be modified at all without the foreigners' consent. The difference between the statutory and conventional tariff rates has accordingly become greater and greater. The same article which still pays only 5 or 10 per cent duty according to the conventional rate, might be required to pay 40, 50 or even 60 per cent under the statutory tariff were it not for these conventions. In Europe and America, the statutory tariff is usually the principal tax. Although there may be a conventional tariff side by side with the statutory, the difference between them can not be great. These experiences of the Japanese tariff clearly show that the tariff autonomy once lost is far from being easy to recover in any country.

7. EFFECTS OF CONCESSIONS IN TREATY PORTS AND OF THE
OPENING OF INTERIOR WATER TRANSPORTATION
UPON CHINA'S TARIFF AUTONOMY

Commercial principles are recognized by international law. Modern international law recognizes the following five rights of a state in dealing with other powers, namely: (1) independence, (2) conservation, (3) equality, (4) sovereignty, and (5) mutual commerce. According to international law, the right of commerce, in the narrow sense, is not absolute and unlimited. It simply signifies that all the states have a right to enter into economic relations with others, without incurring obligations. It is only in special cases and under particular conventions that a state may submit its commercial relations to restrictions and regulations which it judges necessary and useful for its own prosperity. It is thus that an independent nation can either

give to its citizens an entire freedom of commerce with foreign countries, or close its territory to certain goods on account of their nature and origin, or even open only certain ports to foreign navigation. All this is based on the fact that each nation is sovereign on its own soil. Being sovereign, it is independent. Being independent, each state must exercise absolute power over its own territory. In a word, according to modern principles of international law, it has been held that all the characteristics of a state, namely, independence, equality, sovereignty, jurisdiction, and so on, flow from the one principle, the principle of existence.

China is an exception. By the opening of internal river navigation to foreigners, foreign commerce in China means more than the exchange of Chinese products for that of other countries; it authorizes foreigners to engage in internal trade—in the exchange of the products of any one part for those of any other part of China. Nay, it does not even stop here. It goes still further. The treaties allow the foreigner to engage in China's internal trade not in accordance with her regulations and tariffs for native traders, but in accordance with the novel system devised in favor of the foreign subjects. Sir Robert Hart has observed the real situation, when he says,

The foreign tariff and its attendant rules may be unobjectionable as long as their operation is restricted to commercial intercourse in its first signification; but, set up in competition with a native system and applied to internal and domestic trade, they have created a serious derangement in Chinese affairs. At every point they favored the enterprise of the native who breaks native laws, and while they thus act injuriously on honest Chinese traders, they also create difficulties for and make enemies of the officials who administer native laws. . . . Most, if not all of the complaints are to be traced directly or indirectly

to the contemporaneous existence of two systems—a foreign tariff and native tariff—side by side, and until this is changed complaints must continue to be uttered.¹

In the foreign concessions or leased areas, the Chinese right not only of tariff but also of general taxation has now come to naught. With the exception of some form of land tax in certain settlements which is still collected by the Chinese government, China at present can tax neither foreign products nor Chinese goods in those special areas for foreign trade and residence beyond what is allowed by treaty. In the Kiao-chow customs, twenty per cent of the customs revenue collected there was to go to the German government.

8. EXTRATERRITORIALITY

Difficulty of administration. The experience of extraterritoriality in China, as in Japan, has been bitter and intolerable. In the past conditions were deplorable, when most of the foreign consuls were not paid officers but adventurers. Consequently, smuggling was for a long time a most lucrative profession along China's coasts. As most of these consuls were far from honest and as China had no right to adjust injuries done by the foreign merchants, except through the hands of these consuls, that extraterritoriality has been secretly or openly abused there is no doubt. In fact, at one time, British merchants in China went even so far as violently to attack the customs department. In 1869, when the customs began to enforce the regulations against the irregular practices of the foreign merchants, the British Hongkong Chamber of Commerce accused the foreign officers in the customs of finding flaws in the treaty for the benefit of "their Chinese employers",

¹ Robert Hart, *Essays on the Chinese Question*, p. 206.

while the action of the revenue cruisers was characterized by them as "an organized plan of foreign violence". They went still further, to the extent of denying the right of the Chinese to seize and confiscate without the concurrence of a consul, and wrongly interpreted the former actions of the British government as implying the exclusion of China from the comity of nations. They maintained that smuggling was an offence only against the treaty, and not against the Chinese revenue laws; that the observance or knowledge of these was not necessary except in so far as they are recognized by treaty and that British subjects therefore were subject only to the judicial and political control of the consul. Such an attitude again led to the abuse of their national flag in order to protect the malpractices of dishonest foreigners as well as of Chinese subjects; in the latter case it always meant a large profit for the foreign trader. These are only a few instances to show the abuse of extraterritoriality and the disorganization of the methods of the Chinese customs administration. Sir Robert Hart is perfectly right, when he says in his memorial quoted above, that as long as extraterritoriality exists the foreign intercourse of China can hardly be put on a satisfactory basis.

9. ABSENCE OF RECIPROCITY IN THE TREATIES

The application of reciprocity in different countries. The exchange of the reciprocal terms in the treaties are nowadays an important instrument of international diplomacy. It is to be noted, however, that at present reciprocity in Europe has assumed somewhat a different form from that which has been developed in the United States. This is due to the different interpretation put upon the most-favored-nation clause in international agreements. For instance, according to European usage treaties incorpor-

ating the said clause assure to the signatory countries treatment as favorable as that granted to any other nation. Tariff concessions made to others become at once common to all countries enjoying the most-favored-nation privilege. But in America the practice is that concessions granted by her to some other country need not be applied to a third country unless that third country grants similar concessions to the United States.

Now what has taken place in China is altogether different. As the treaties have generally been concluded by force, China has granted many privileges and immunities to foreigners without receiving any corresponding compensation from those countries. The rejection of the so-called "Alcock Convention" which alone was settled in a friendly manner and spirit, was equivalent to saying that Chinese interests must always give way to what the foreigner thought to be his interest. The judicial principle running through the arrangements from the past has always been one which gives prominence to the distinction in persons and not in things. So far no procedure of administration exists for the joint action which ought to take place where both foreigners and natives are concerned. Even in the treaty with the United States, the nation most friendly to China, in 1859, in the article regarding the trial of deserters and criminals, the obligation and privilege were also one-sided. The most-favored-nation clause in various treaties has always been the most absolute in its meaning.

IO. THE MOST-FAVORED-NATION CLAUSE IN CHINA

Unfavorable to China. The most-favored-nation clause made its first appearance in the Tientsin Treaty with Great Britain, and simultaneously was incorporated in the treaties with Russia and the United States and afterwards in other treaties. According to international usage there are two

kinds of most-favored-nation clauses: the mutual and absolute. By mutual it is meant that the contracting powers are willing to exchange the privilege granted to each other. By absolute is meant that one nation must sign a favorable treaty, while the other nation does not give any thing in return. The treaties which China concluded with other powers are of the latter kind. So the various treaties merely expressed the intention of the treaty powers to insist upon participation in any benefits extorted, on whatever pretext, by any one of them. France has always refused in principle to be bound by any conditions attached to concessions made to other powers, while claiming all advantages under the most-favored-nation clause. It is evident that by this clause China has incurred many marked disadvantages. It is due to this that the original one-sided conventional tariff has been perpetuated.

The solution of the problem. For about a century, the foreigners in China seem to have forgotten the important principle that there are always two parties in a bargain. While the Chinese have in numerous cases found it impossible to adjust their sufferings from injustice done by foreigners, the British merchants on certain occasions have gone so far as to demand aid from their government against purely commercial tactics on the part of the Chinese in ordinary business competition. As a result there is a feeling in China that commercial concessions are inevitably and unfortunately associated with political and territorial aggression on the part of the powers. As a matter of fact, all the concessions, especially those from 1885 onwards, were extorted by armed force without compensation. They were either without excuse, or as "penalties" for acts of violence on the part of Chinese subjects, the missionary being the favorite pretext. But the so-called penalty was often out of proportion to the "crime", and China was

led to believe that the policy of the powers was an open attack on the independence of the empire. This was also responsible for the enthusiasm of Young China, since the beginning of the century, in their claim for "the recovery of China's rights" and "China for the Chinese" and in their bitter attack on the corruption and incompetency of the administration. The revolution of 1911 and the consequent overthrow of the Manchu government were a marked manifestation of this spirit. In fact, H. E. Wu Ting-Fang, when he was in this country in 1900, has already expounded the Chinese sentiment in his famous address to an American audience, when he said:

Nations now enter into friendly relations with each other because it is believed that both sides are benefited by such relations. Their transactions can not be a one-sided affair, for the simple reason that it takes two to make a bargain. . . . Therefore, if permanent relations are to be established between two nations, reciprocity must be the key-note of every arrangement entered into between them.¹

¹ H. E. Wu Ting-Fang, "Mutual Helpfulness between China and the United States," *North American Review*, July, 1900, vol. clxxi, pp. 1-2.

CHAPTER IV

ECONOMIC ASPECTS OF THE CHINESE TARIFF

I. GENERAL CONSIDERATIONS

Tariff practices in modern times. A tariff in modern nations may embody either of two principles,¹ namely, it may be imposed for, or with reference to, the fostering of home industries (protective tariff), or for the production of revenue (tariff for revenue). The earliest example of the protective tariff is probably to be found in the time of King Edward I, when special duties, protective in their nature and not merely for revenue, to be paid by foreigners only were levied. Under the mercantile system protective duties were commonly levied by every nation, especially as a part of the colonial system. The protective tariff in England in the eighteenth century was exceedingly high and elaborate.

Modern ideas of protection, however, made their first appearance as a general statement in the famous Report on Manufactures (1791) of Alexander Hamilton. For the European continent the period of the French revolution in which there was constant warfare marks the starting-point of the modern protective system, as exemplified in the measures adopted by Napoleon I. Since then, in spite of the agitation in the first half of the nineteenth century against the corn laws and the navigation laws in England, in spite of the commercial treaty of 1860 between

¹ Sometime, however, a special tariff may be imposed as a means of coercing foreign governments, as in the case of a retaliatory tariff intended to compel the grant of reciprocity privileges.

England and France which for a while went rather far in the direction of free trade, and in spite of the policy of the German *Zollverein*, which in the fifties and sixties was very liberal and designed for revenue only as among the German states, the recent tendency in Europe and America has been toward protective tariffs. To-day the United States is the first, and Germany the second, country in the order of protective tariff measures. The tariffs of most of the other nations are also more or less protective in nature.

But England is a free-trade country. In order to maintain her position as the greatest manufacturing and industrial nation, she exempts both raw materials and necessities of life. In order to secure revenue, she taxes chiefly manufactured goods and luxuries. In order to keep her tariff uniform and simple, she limits customs duties to a few commodities only. That England has profited by the free-trade policy is shown by the fact that in the past thirty years the returns of her foreign trade (both import and export) have increased eight times; and her national wealth, as evidenced by the income-tax returns, has increased 13 per cent.

Yet even in England, the extraordinary revenue required in connection with the Boer War led to the restoration of the duty on sugar, to the imposition of an extra duty on coal, and finally to the restoration of light registration duties on grain and flour. The threatening influence of German and American competition was responsible for the movement led by Chamberlain for the establishment of an Imperial tariff system in which preferential duties against other nations were proposed for the colonies. Finally, the present situation will probably lead to another and even more persistent agitation for a protective tariff for the British Empire. So it is clear that the tariff policy

must be adjusted to the conditions both of the country and of the age. The policy which may be the best for one nation may not be advisable for another. That which works well at one time may not be so at another. "In common with all systems of economic policy, protection springs from a set of conditions, sentiments, and beliefs."¹

2. THE ABSENCE OF AN ECONOMIC POLICY IN THE CHINESE TARIFF

Economic protection needed in China. The economic condition of China at present represents the transitional period from a local to a national economy. Modern facilities of fostering industries and commerce are still sadly lacking. As a result, for about half a century imports always far exceeded exports.² And most of the exports are raw materials. Therefore under such circumstances, it is not to be denied that an economic protection is necessary and even vital for China in order to prevent general stagnation from within and competition from without. According to List's *national* system,³ the promotion of native industry and economic interests is a duty, to the loyal citizen, nearly as imperative as the defence of a national territory against invasion. Professor Patten holds the view that protection is not a temporary but a permanent necessity in dynamic and progressive societies.⁴ While those ideas may be said to be extreme, Professor Taussig⁵ is certainly more moderate and probably nearer to the truth when he says that the protective policy is necessary when new processes of production may fail to be applied through

¹ Palgrave, *Dictionary of Political Economy*, vol. iii, p. 234.

² In 1905 the imports exceeded exports by some 100 per cent, though the proportion has been decreasing.

³ See List, *Das nationale System*.

⁴ S. N. Patten, *The Economic Basis of Protection*.

⁵ F. W. Taussig, *Tariff History of the United States*, p. 5.

ignorance, the inertia of the people and so on. The latter case exactly applies to China. Although in the case of China, as will be pointed out elsewhere,¹ a protective tariff may not be the only means for the promotion of national industry and commerce, yet it ought to be one of the legitimate policies in the minds of her statesmen. The absence of economic protection in the Chinese tariff is due not to the fact that protection is not needed, but, on the one hand, to the accustomed policy of some of the powers of imposing upon a weaker nation harsh and unjust terms by means of military force, and, on the other, to the early ignorance by China of Western methods of finance.

3. IMPORT DUTIES PROVIDED IN THE TARIFF TREATIES

Privileges and immunities given to foreign imports. As has been shown above, China's tariff is not statutory but conventional, that is, it is concluded by treaties with foreign powers. Furthermore, most of the existing treaties are made as a result of foreign military coercion. The harshness and injustice which are responsible for the provisions of the Chinese tariff can be shown as follows. First, in striking contrast to the highly complicated machinery of customs duties in Western countries, the tariff rate on imports in China is on a uniform five per cent basis. It is so absurd that there is no distinction of treatment with reference to raw materials and manufactured goods, or with reference to luxuries and necessities.

Secondly, as prices in general have risen and as there has been only one revision in the Chinese tariff since 1858, even the five per cent rate is for the most of the time not effective but nominal. What the foreign merchants actually pay to the customs is far below that rate. Such a tariff indeed has been said to be not worth while.

¹ Cf. *infra*, chap. viii.

Thirdly, instead of paying inland transit dues, foreigners are allowed to pay a commutation tax to the extent of only one-half the import duty or two and one-half per cent at the port of entrance, while the native merchants are subject to all the local imposts, which exceed what the foreigners have to pay. Fourthly, before 1901, all the imported goods which were supposed to be solely for the use of foreigners were exempted from the import duties. In other countries such immunity is given only to foreign ambassadors or other governmental representatives. Fifthly, along the land frontiers in Mongolia, Eastern Turkestan, Manchuria and so on, a special rebate on import duties is still given to imported goods.

Sixthly, foreigners are "free" ¹ to engage in all kinds of manufacturing industries in all the open cities, towns, and ports of China, and . . . to import into China all kinds of machinery, paying only the stipulated import duties thereon". With regard to inland taxation, all articles thus manufactured by foreigners in China "stand upon the same footing and enjoy the same privileges and exemptions as merchandise imported by Japanese (or other foreign) subjects into China." This stipulation in the treaty of 1895 marks a revolutionary step in the abandonment by China of any idea of self-protection.

Seventhly, attempts have been made to exempt imported goods not only from transit dues but from all municipal charges whatsoever. It is even emphatically specified in the British commercial treaty of 1902 (Sec. 8, Art. VIII) that in the case of China wishing to substitute for *likin* taxes a consumption tax, the arrangements "shall in no way interfere with foreign goods." "The fact of goods being of foreign origin shall of itself free them from all taxation,

¹ Treaty of Peace between Japan and China, 1895, 4th section, art. vi.

delay, or stoppage, after having passed the customs house." Such a tariff which gives from beginning to end preferential treatments to foreigners against the natives is a disgrace not only to the Chinese government but also to the "civilized" powers.

Further disadvantages for China. There are one or two more important factors in the treaties which operate seriously against China. The famous "most-favored-nation" clause was introduced into Chinese treaties early in 1843 when a supplementary treaty between China and Great Britain was concluded by the signature at Hoomum-Chae. The avowed purpose of this clause is to enable a country to compete in a common market in the contracting state. But in China the mode of production and consequently the articles of export are quite different from those of advanced countries. In the case of Chinese exports, the chance of coming into competition with European or American countries is limited; the sphere of competition is very narrow. Even if, in fact, China were nominally treated equally with other nations, she would receive far less than what the clause gives to others. China, however, does not receive the privilege in name. For in China the operation of the most-favored-nation-clause is always one-sided. Privileges are exacted from her without any corresponding return, that is to say, there is an entire lack of any reciprocity idea in the Chinese treaty stipulations. For instance, France has always refused to be bound by additional conditions attaching to concessions made to other powers, while claiming, under the most-favored-nation clause and two special articles, the full enjoyment of any advantage so gained.¹ This is provided for in Article IX of the French Treaty, signed at Tientsin; and by Article XL it is still further stipulated in the following words:

Il est d'ailleurs entendu, que toute obligation non consignée

expressément dans la présente convention ne saura être imposée aux consuls ou aux agents consulaires non plus qu'à leurs nationaux, tandis que, comme il a été stipulé les Français jouiront de tous les droits, privilèges, immunités et garanties quelconques qui auraient été ou qui seraient accordés par le gouvernement chinois à d'autres puissances.

Were China strong enough to assert her international rights against any foreign nation, she ought to refuse to allow privileges conceded to one country, under certain conditions, to be enjoyed by another apart from those conditions. But she is too weak to do it.

4. EXPORT DUTIES

Rare in modern fiscal systems. In order to reduce the cost of home production so as to extend its market abroad, modern governments have tried every means to facilitate rather than to check the home industries. This is the reason why export duties were abandoned by the middle of the nineteenth century by almost all the advanced countries, such as England, Germany, Holland, France, Belgium, Denmark and so on. In the United States the Federal government is even prohibited by the constitution from levying export duties.

But there are still some countries which levy an export duty with a view to collecting revenue. For instance, Chile derives a considerable revenue from its nitrate exports, and Brazil from its coffee exports. Turkey, Egypt and Persia all levy a one per cent uniform tax on all exports. Roumania, Servia and Bulgaria still levy a tariff of one and one-half per cent on exports. The export duty in Siam is so heavy as to amount to from 10 to 20 per cent. Most of these cases are to be found in backward countries.

There is, however, still some justification for the

collection of an export duty. In the first place, an export duty may be levied for the protection of home industries. For instance, Germany, Austria, Italy, Russia, Spain and Greece levy an export duty on cabbage, which materials are utilized for the manufacture of paper. To tax it is to protect the home paper industry. Norway and Sweden, to protect their forestry, levy an export duty on timber. Switzerland imposes an export tax on hides of domestic animals in order to encourage the leather industry in the country. In England, since 1901, the long-discarded tax on coal exported was restored in order to protect industries at home.

In the second place, countries may impose an export duty on certain industries of which they have a monopoly of production, such as the duty on opium in India, on sulphur and brimstone in Italy, and on nitrate in Chile. This is justified on the assumption that the burden of tax can be shifted to foreign countries. But this assumption is questionable. If the higher price of a monopolistic product caused by the export duty compels the consuming country to find some substitute, its monopolistic position may be endangered, and the export duty is therefore bound to give way. In short, the exports of a country must, as a rule, be made free of duty. An exception exists in only two possible cases: where the duty for a time can not be abolished and where it ought not to be abolished.

Export duties in China. The Chinese name for export duty is "Chi-Kou-Shui", or a tax on "goods going out of the port". The meaning of the tax is therefore twofold, that is, a tax is imposed on goods transported coastwise as well as on those sent abroad. The explanation of such a peculiar development is this. Foreign trade, on a large scale, did not exist in China until a century or so

ago.' In former times the coast trade was taxed on equal terms with the land trade, as a sort of transit duty. After the opening of the foreign trade, once the goods were out of the port there was great difficulty in distinguishing whether they were intended for a foreign market or for another port in China. In view of the fact that any arbitrary distinction on the part of the government might bring injustice to the merchants and lead to an evasion of the duty, the same tax was levied on the goods of both categories without any discrimination. This is an important difference in the export duty in China as compared to that in other countries.

Another difference is that the export duty in China, like her import duty, is also regulated by treaties. The Anglo-Chinese Treaty in 1842 deprives China not only of her autonomy with reference to the import tariff but also of that with reference to the export tariff. In the Tientsin Treaty (1858) with Great Britain, the limitation was still more distinctly fixed, that is, the total export duty can not go beyond seven and one-half per cent. This applies to the ordinary export duty together with the coast trade duty.

The reasons why the early negotiators put export duties into the treaties are probably as follows: (1) Since foreigners have come into competition with the Chinese not only in foreign but also in coastwise trade, it might have been thought by the Chinese government that a uniformity of taxation must be provided by treaties in order to compel the foreigners to comply with the regulations. (2) Since most of the export trade in China is done by foreigners, it was naturally desired by the foreign representatives to limit the amount of export duty in the treaty. So, in 1903 in the second commercial treaty between China and Great Britain, it was again provided

in Article VIII that the export duty can not be over seven and one-half per cent.

Under the present regulations, there are various sorts of discriminations against the native exporters, while special privileges have been given to foreign merchants, and to those natives who are under foreign protection. The result is that there are foreigners who do not engage in export trade at all, but who create fictitious firms from which they receive remuneration from the native merchants who do business under their names. Everywhere the honest native merchant is put in an unfavorable position. Yet he is accused of being incapable of competing with foreigners.

The coast trade duty. The coast trade duty is a development outside of the treaties and existed long before the opening of the foreign trade. In the treaties no provision was made for the coasting trade in foreign bottoms other than a stipulation that "if a master of any vessel in port desires to discharge a part only of the cargo, it shall be lawful for him to do so, paying duty on such part only, and to proceed with the remainder to any other ports". (American treaty, Art. XIX; French treaty, Art. XXIX; 1858.) Owing to the rapid increase of this trade, some form of procedure has been provided for. For the period between 1861 and 1899, the coast trade duty was levied together and at the same time with the export duty, because the ultimate destination of the product sent out of the port could hardly be certified in advance. Since the revision of the tariff in 1899 all the coast trade duty has been collected at the port of destination instead of at that of departure. Thus at the present time it is paid in the form of an import duty although the rate still is based on the export duty. The rate of the coast trade duty is two and one-half per cent *ad valorem* or one-half of the export duty provided in

the treaties, similar to transit dues which must have been paid on inland transit.

This duty on interport transportation is one of the harassing taxes in China which prevent and retard the expansion of trade. That China taxes the domestic more than the foreign trade can be shown by the fact that, while the total foreign trade of 1912 was Tls. 5,000,000 less than that of 1911, the revenue increased by over Tls. 3,700,000. This is explained by the duties being charged for goods carried from port to port, whether they are merchandise brought in from foreign countries directly or home produce taken from one port to another. There is no good reason why the coast trade should be taxed more heavily than any other trade.

Hindrance to China's export trade. To avoid the continuously unfavorable balance of trade, China must try every means to facilitate the export of domestic products. The operation of the export duty, however, defeats this aim. Early in the middle of the past century the striking difference in the fluctuation of the import and export trade had already been manifest. For instance, in 1863 the value of British imports was but £3,889,927; in 1868, it increased to £7,468,278. The export trade, on the other hand, went down in the same five years from £14,186,310 to £9,523,776. Since then the same current of trade—rising in the case of imports and falling in the case of exports—continued to flow until the high water-mark was reached in 1905. In that year the returns of foreign trade showed that the import trade amounted to 66 per cent of the total, while the export trade was only 34 per cent. At the present, the value of China's exports is still considerably below that of her imports. In 1913, the value of total imports was \$416,000,000 and that of exports, \$294,000,000; the balance of trade was against the country to the amount of

\$122,000,000. Raw materials preponderate in China's list of exports, though manufacturing is being developed with considerable rapidity.

As regards the land trade the export duty operates against the domestic products just as seriously. "Customs Notes on North Chinese Treaty Ports" regarding the Harbin district show that in the year 1913 in that district there was an advance of the value of foreign imports by over a million taels, due principally to Russian cotton piece goods, and on the other hand, a drop in exports abroad from about 26.8 to about 22.2 million taels. This can be accounted for by two facts. The one is the abolition of the fifty-verst-free-zone privilege on the Russian side of the frontier, entailing application of the Russian customs tariff. The other is the operation on the Chinese side of the export duty on goods sent across the frontier.

Export duties on silk and tea. Silk and tea used to be the two main articles of China's export trade. But both of them, especially the latter, have suffered from taxes. While raw silk used to pay an export duty less than the stipulated rate because of the advance of price, its export has been hindered to a large extent by inland taxes which far exceed the export duty. The taxes including export duty and *likin* on the low-priced tea have been tremendous. By the British Treaty in 1842, tea was to pay a five per cent export duty. But on account of the fact that the tea price has fallen considerably and that since then there has been no revision of the export tariff,¹ tea, and especially tea of inferior quality,² has paid far more than the rate provided

¹ There were discussions on the readjustment of export duties on tea and silk in the years between 1867 and 1879 for the revision of the Tientsin Treaty, but they were never carried out. Also there was some reduction of duty on tea dust, which, however, was not for exportation.

² The export tariff rate, like that of the import tariff, is uniformly 5 per cent. So tea of all grades must pay the same amount of export duty (except the tea dust mentioned above).

for. Moreover, the burden on tea has been further increased by the imposition of *likin* taxes in the interior. Thus it was remarked by observers early in 1870¹ that the tariff rate of 2,500 taels per picul as fixed in 1842 was equal to, not five, but ten per cent of its average value. Since the fall in price from the date of the first (Nanking) treaty, tea has been subjected to an export duty of at least 12.5 per cent. In 1868, the memorial from Foochow merchants (British) declared the export duty on tea to be an average 10 per cent. The Amoy memorial at about the same time claimed taxes in that quarter as being not less than 35 per cent on common Ankoi teas. In 1897, Mr. Brennan, in his Canton Consular Report for that year, placed the figure at 35 per cent. While the British Consular Report of Amoy, for 1896, said that the taxes there amounted to more than one-third of the value of the tea.

With all these and other similar instances, it is not at all difficult to account for the rapid decline in China's tea trade in the past half-century or so.² China had monopolized the tea market in the world before 1860, which year marks the beginning of the decline in China's tea trade. This decline has been rapid and continuous. In 1889, the annual export of tea still amounted to over thirty millions of taels; but it was reduced in 1902 to eighteen millions of taels. In 1913, the export of Ceylon tea alone was about equal to that of China.³ For her silk, China has also been noted for cen-

¹ London *Times*, March 24, 1870, p. 4b.

² There are also other reasons why the tea trade has declined. One is that the more scientific cultivation of tea in Ceylon and Japan has enabled them to compete more successfully. Another reason is the almost prohibitive import duty on tea by the British Government. Formerly most of the tea trade was carried on between Great Britain and China. But in the early part of the nineteenth century the British duty on tea stood at about 200 per cent on average qualities, and over 350 per cent on the worst. In 1840 an additional 5 per cent was imposed.

³ In 1913 China exported 192,281,000 lbs. of tea, and Ceylon 191,509,000 lbs.

e. *Goods of a prohibitive character like antiques.* These must be protected by the imposition of high duties. The duty might be fixed at about 50 per cent, with an additional penalty for smuggling.

With such modifications and readjustments of the export-duty schedule, the government would receive about as much revenue as at present. But the export trade may be improved to a considerable extent. Under the present trade conditions of China there is no justification for any export duty. The financial exigencies of the government, however, do not permit of its abolition. The above suggestions are advanced only to meet temporary purposes; the abolition of the export duty may be expected at some future date.

INLAND TAXES ON GOODS FOR EXPORTATION

Intolerable conditions. In addition to the export duty which already operates sufficiently to check the export trade, the Chinese merchants are further troubled with burdensome inland transit taxes. That is not all. The conditions under which the trade is carried on are made still more intolerable by the fact that foreigners who are given the right of manufacturing in numerous open ports and in keen competition with the natives are exempt from all internal transit dues by paying a commutation tax of only two and one-half per cent. The general policy of modern states is not to hinder, but to facilitate, foreign sales. Domestic products destined for exportation are usually exempt from the payment of internal revenue taxes, in spite of the difficulties which the revenue collectors have to face.

In China such privileges seem to have been granted to foreign manufacturers only, while the domestic industries suffer enormously from the operation of inland duties. For instance, a native factory is established in the "interior" of Kiangsu province and its raw materials are to be brought

from Sze-chuen or Hunan. According to the trade rule, at the starting-point of transportation the merchants must pay *likin* or Tung-chu once. When the produce reaches Hankau to be shipped by river steamer for Kiangsu, the full export duty and half of the transit duty must be again paid at the maritime customs. From a treaty port of Kiangsu to the interior of the same province, it must pay *likin* or Lo-ti-shui once more. Thus when the raw material is brought to the factory, it has paid both the export duty and the transit duty, or 7.5 per cent in all, and *likin* twice which is at least 5 per cent every time; so that the total amount of taxes is already over 17.5 per cent. If such manufactured goods are to be exported, they must again pay the full *likin* and export duty at the customs and *likin* office through which they must pass, which taxes are about 10 per cent; or they must apply for exemption from export duty and *likin*, as provided for by section 9 Art. VIII of the British Treaty in 1902, by paying an excise which is also equal to 10 per cent. Thus the total amount of exaction on such manufactured goods before exportation will probably be not below 27.5 per cent.

Of course, these machine-made goods are still crude and at present destined only for interior markets. But under the present system of taxation even in the interior market, they can hardly compete with manufactured goods imported. For when these goods are brought out of the factory for the interior market in other provinces, they must again pay the full duty at every custom-house and *likin* office on their way to their destination.¹ Usually when they are thus shipped for sale into the interior, they have to pay again the customs duty and transit duty, once each, and the *likin* for production

¹ At present some of the large factories (Chinese) have been granted the privilege of paying a reduced amount of duty.

and consumption twice. Such native goods must therefore pay, in all, the full customs duty three times and the *likin* four times. Assuming that the *likin* to be paid every time is 5 per cent, the total amount of imposition must be about 35 per cent.

On the other hand, a foreigner may export raw materials from China and import the manufactured goods from the same material; all that he has to pay for, both ways, is the export and import duty once each, and outward and inward *likin* once each, the total amount being only 15 per cent. Thus the cost of production on foreign imported goods is still lower than that of the native, in spite of the transportation fee or export duty, if any, which they are liable to pay. It is evident that the inland taxation tends practically to destroy any new industry in China. The failure of the domestic textile industry is due precisely to this fact, because the foreign merchants can and do export dried cocoons from China and send back to her silk piece goods, paying in duties only 15 per cent in all, while the Chinese themselves are hindered mainly by the tedious and oppressive system of taxation.

6. CONCLUSION

In summarizing the economic considerations as to China's tariff, it should be said that the present government is far from being indifferent to the welfare and the interests of the people. The most lamentable thing is that the whole tariff regulation is fixed by treaties with about a dozen nations. The revision of a treaty with one requires the consent of all the rest. The tariff stipulations together with the political troubles keep the general revenues low and compel the government to retain those taxes which tend to destroy both foreign and domestic trade. For this deplorable condition, not only the Manchu government but also the foreign powers should be held responsible.

CHAPTER V

FISCAL ASPECTS OF THE CHINESE TARIFF

1. GENERAL CONSIDERATIONS

The fiscal object of a tariff. In modern tariff legislation the fiscal features of a tariff play a rôle just as important as the economic motives, since there are few states which can afford to handle their customs taxation in such a way as entirely to subordinate fiscal interests to economic policy.

Thus in the United States the general principle of the tariff is for revenue as well as for protection. All articles not especially taxed at the rates named, or expressly exempt from taxation are subject to a duty of 10 per cent if unmanufactured and of 20 per cent if manufactured in whole or in part. Before the Civil War the revenue of the Federal government consisted chiefly of the customs receipts. Even in the fiscal year 1913-1914 the customs still yielded some 39 per cent of the total Federal income.¹ In Germany, customs and excise also contributed in 1913 about 45 per cent of the total ordinary revenue.² In France, in 1914, customs yielded some 20 per cent of the total revenue, including both direct taxes and direct contributions.³ Al-

¹ In the United States for the fiscal year ending June 30, 1914, the customs receipts amounted to \$292,000,000 and the total ordinary revenue to \$734,000,000 in round numbers.

² In 1913 the German Empire received £179,009,770 as her total ordinary revenue and £70,375,000 from customs and excise.

³ France in 1914 obtained fr. 721,548,700 from customs and fr. 3,509,356,626 as her total revenue from indirect taxes and direct contributions.

though Great Britain is a free-trade country, it depends upon its tariff for revenue. The customs on imports alone amounted in 1914 to over 22 per cent of the total revenue.¹

On the other hand, while China is sadly lacking in revenue, the yield of her customs is far below the general average. For instance, the revised budget published early in 1912 shows that the total income was Tls. 269,754,575 and the yield of the maritime customs, Tls. 35,139,917. But the maritime customs there included not only import duties but also export duties, coast-trade duties, transit dues (inwards and outwards) and opium *likin* as well. The actual import duties received in 1911 amounted to only Tls. 14,742,801. Inasmuch as customs usually means, in other countries, import duties only, the true customs revenue (the import duty) of China yields only about 5.5 per cent of the total income.² Thus it is not far from the truth to say that the aim of China's tariff is neither protection nor revenue. If there is any revenue principle at all, it goes only to the extent that China's customs receipts must be sufficient to pay a part of her obligations to foreign creditors for her loans and indemnities.

2. THE PRESENT FINANCIAL POSITION OF CHINA

Lack of Revenue. While the expenditures of the government have necessarily increased by leaps and bounds, there seems to be no way of securing sufficient revenue. In China, as elsewhere, it is difficult to raise direct taxes without serious objections on the part of the people. In-

¹ The figures for Great Britain in 1914 are £35,568,580 for customs and £198,323,445 for total revenue.

² It is true that the export duties in China produce a large amount of revenue, but a quite considerable portion of this is collected on native produce carried from port to port and not for foreign markets. In the latter case it is only a part of internal taxation and quite different from the maritime customs.

ternally China has already almost destroyed her domestic trade by taxation. On the other hand, the revenue from foreign commerce is so meagre that it has been for years practically exhausted in the payment of the principle and interest of foreign loans, made necessary by the heavy and repeated indemnities demanded of China, by expenditures for the military and naval defence, for the diplomatic and consular service, and for other modern innovations.

By the terms of peace after the war with Japan, China was compelled to pay a large indemnity and to raise sums of money far beyond the yield of the maritime customs. This was again followed by the Boxer episode. At present, one of the heaviest items is the annual sum to be paid on account of the interest and the amortization of the Boxer indemnity, the amount to be paid during 1914 being Tls. 19,899,300; during 1915, Tls. 23,283,300; from 1916 to 1931, Tls. 24,483,800, and after that date, Tls. 36,350,150 annually until the whole is paid off in 1940. The original amount of the indemnity (Boxer) was Tls. 450,000,000, but by the end of 1940 China will have paid in interest and amortization no less than Tls. 982,238,150, and must also pay during the same period, on account of loans current at the date of the Protocol, Tls. 674,200,000, or in all Tls. 1,656,438,150. In recent years more obligations have been incurred, including claims for damages during the Revolution of 1911.¹

The obligations may not be very heavy in view of the size and potential wealth of the country, but in the

¹ In April, 1913, the so-called "Administrative" loan was again contracted, which amounted to 25 million pounds sterling (two millions out of that amount were paid for the damages during the Revolution). The loan is to run for forty-seven years with five per cent interest. It is calculated that when the loan shall have been redeemed, its interest will exceed the principal.

present undeveloped conditions, the government has no way of finding funds to meet the periodical payments due to foreign creditors. The thing to be noted is that while the Chinese government has tried every means of raising funds to meet foreign obligations, foreign commerce still refuses to pay even an effective five per cent *ad valorem* duty, which has been so clearly stipulated in the treaties.

3. INJUSTICE OF CHINA'S TARIFF STIPULATIONS TO WHICH
MUST BE ATTRIBUTED THE SERIOUS SHORTAGE OF
REVENUE

The absence of any revenue principle in the Tariff. In the Chinese tariff arrangements, from the standpoint of revenue, there are several defects. In the first place, all imports except opium are taxed at a uniform rate of 5 per cent *ad valorem*. The tariff fails to distinguish manufactured goods from raw materials, and luxuries from necessities.¹

In the second place, the tariff rate is undoubtedly too low. Compared with the tariff duties to which Chinese goods are subject in other countries, for instance, tea in England and manufactured silk in the United States,² the uniform 5 per cent rate is extremely moderate. A still more unreasonable situation was sought to be brought about in 1867 when the British merchants at Hongkong and Hankau boldly suggested to the British Minister (Sir R. Alcock) a

¹ As many of the manufactured goods and luxuries imported used to be exempt from duty on the assumption that these were for foreign consumption only, it may be said that those two classes of imports have been more favorably treated than raw materials and daily necessities. But this practice is entirely opposed to the usage and policy of modern advanced nations.

² Under the law of 1913, in the United States, the rates of duty on different kinds of manufactured silk run from 35 to 60 per cent *ad valorem*.

sweeping reduction of the tariff to one-half of the existing rates on the ground that the reduction might increase foreign trade and ultimately the customs revenue. But Sir Alcock then remarked,¹ "while the duty on tea in Great Britain is still 50 per cent, the ground of reciprocity [this being the reason advanced by the British merchants] seems to be a very bad argument for a further reduction upon a duty of 5 per cent". Nor did he think that the Chinese government was likely to be "in accordance with the conviction of the memorialists, that by lowering these rates to 2½ per cent 'they will be gainers in actual revenue'".

In the third place, there were unreasonable exemptions given to a large number of imports which were supposed to be for foreign consumption only. In the customs regulations of 1859 (Art. 2) there is mentioned a long list of goods exempt from any duty, such as foreign tobacco and cigars (value of import in 1908, Tls. 6,929,308), wine and spirits (Tls. 2,688,568), perfumery (Tls. 210,624), soap (Tls. 1,377,971), household stores (Tls. 2,371,861), flour (Tls. 6,931,204), butter and cheese (Tls. 559,624) and so on. As there was no revision for forty-four years,² the Chinese exchequer must have suffered severely from this concession.

These exemptions might be justified on the ground that the customs and habits of foreigners were quite different from those of the Chinese and that the former's goods would not be demanded and sold to the latter. Consequently, since these goods were not for commercial purposes, they might be free of duty. But the question is: are these goods limited to foreign consumption and are they

¹ Circular by Sir R. Alcock to British Consuls in China. Peking, Feb. 17, 1868.

² This oppressive provision was finally removed in 1901 and all these goods began to pay five per cent *ad valorem* duty.

not really imported for commercial purposes? As the regulation did not put any limit to the amount of exempt goods which each vessel might carry, it is scarcely open to doubt that those goods were meant for sale. A precedent for this is found only in the case of extraterritoriality in international law, but not in the fiscal history of any nation. According to international usage this extraterritorial privilege is granted only to the head of a foreign nation, or to its ambassadors, ministers or warships. According to the continental school this privilege must also be given to the consuls of foreign countries. Even in such cases, however, the number of persons who are entitled to the privilege is rigidly limited. It is absurd that every foreign resident in China should enjoy the same advantages that his executive head or representatives or men-of-war of his country enjoy in other countries. Moreover, in China the consumption of foreign tobacco is on the increase. The old Chinese pipe to a considerable extent has been replaced by cigars and cigarettes. Even the coolies, whose wages are very low, are using cigarettes as a part of their necessities of life. The consumption of foreign wines and spirits, such as champagne, brandy, whiskey and beer, is also increasing very markedly. That these luxuries should pay a duty far more than the 5 per cent, is admitted by every impartial thinker. It is chiefly due to these reasons that the import tariff has failed to contribute its due share to the Chinese revenue.¹

4. ABSURD RIGIDITY AND INFLEXIBILITY OF CHINA'S TARIFF

The statement that China's tariff rate is only five per cent is still far from the truth. The supposed 5 per cent is in reality only nominal. Most of the imports actually

¹ The special rebate privilege granted to imports at the frontier custom-houses has also caused a deficiency of revenue to the Treasury. Cf. *infra*, chap. vii (section on frontier customs).

have been paying considerably below that rate. The reason is this: the stipulations of the tariff or, in the wider sense, the conditions under which foreign commerce has been established and is being carried on, form a serious interference with, rather than an effective source of, revenue. In the entire volume of foreign trade, there is no flexibility or power of adjustment left by which the government may regulate its income in accordance with its needs. Whatever may be exigencies and consequent demands upon the treasury, no help can be looked for in that direction. The customs revenue fluctuates in amount only as the commerce shows a gain or loss.

In spite of the provision for a decennial revision in the treaties, the import tariff has been revised only once (1901) for more than half a century, and, so far as the export tariff is concerned, no revision at all has ever taken place. Pending the completion and publication of the revised import tariff in 1902, which was to be based on the average values of imported goods for the three years 1897, 1898, and 1899, the custom office issued the "List of goods from foreign countries imported into Shanghai during 1897, showing the percentage of the duty on the average market value for the year". The list, as pointed out elsewhere,¹ is of special interest as showing how far the import duties provided for in the superseded tariff had drifted away from the 5 per cent level and how great the difficulty which the absurdly rigid treaty tariff had imposed upon the Chinese Government. Inasmuch as the import tariff had never been revised for forty-four years, the shortage of revenue due to the general rise of prices must have been enormous.

¹ Cf. *supra*, p. 42.

5. THE PRESENT SHORTAGE OF CUSTOMS REVENUE OWING TO THE ADVANCE OF GENERAL PRICES

Since the revision of the tariff, fifteen years have again elapsed without any further readjustment. Since prices have generally increased, the imports are as a rule again no longer paying in reality a five per cent duty. For instance, among the cotton piece goods, white drills not exceeding forty-eight yards long are taxed at Tls. 0.100 per piece—five per cent of the supposed price of Tls. 2.000. As a matter of fact, the present market price is far above that amount. Similarly among the metals, Japanese copper is still taxed at Tls. 0.600 per picul, representing five per cent of the original price of Tls. 2.000. But the present market price is also far more than that. These are only one or two examples of the large number of imports that are paying less than the supposed duty.

It may be said, however, that since there are goods whose prices have risen as well as those whose prices have fallen, the deficiency of revenue on the one hand is compensated by the surplus on the other. But this supposition is not in accord with the fact. In an investigation by Mr. Tan Da-pen, of "present market prices of goods imported," reported to the government in February, 1914,¹ ten of the principal imported commodities are

¹ A brief summary of Mr. Tan's report which was published in the *Monthly Report of Taxation* by the Board of Finance (Feb. 1914) may be presented here. The ten main articles of import of which he made a detailed report are as follows:

I. Cotton yarn, grey or bleached. These are Indian, Japanese and British cotton yarns. The present rate of tariff, based on 5 per cent of the cost value, is Hk. Tls. 0.950 per picul, or Hk. Tls. 2.850 per parcel which equals three piculs, as the cost value estimated was Hk. Tls. 57,000 per parcel. But of late the price has greatly increased and their varieties have also multiplied, varying from Tls. 75,000 to Tls. 150,000 per parcel. Thus the effective 5 per cent tariff must be between

compared from among a large number of other imports.

Tls. 3,750 and Tls. 7,500. In recent years, in Shanghai alone, the annual amount of cotton yarn imported from India is over 500,000 parcels and from Japan over 200,000 parcels. From these two items alone the shortage of the customs revenue must be over Hk. Tls. 1,200,000.

II. White shirting—40-43 yards long and 35-37 inches wide. The present tariff rate is Hk. Tls. 0.135 per piece, as it is 5 per cent of the supposed price of Tls. 2,700. But the present market price is between Tls. 3,000 and Tls. 7,000 per piece. The effective 5 per cent tariff should then be from Hk. Tls. 0.150 to Hk. Tls. 0.350 per piece.

III. Eleven pounds grey shirting.—Not exceeding 36-40 inches wide and not exceeding 40 yards long. The present duty is only Hk. Tls. 0.120 per piece and there is no advanced charge on the shirtings which exceed 11 lbs. in weight. All these goods are supposed to be at the price of Tls. 2,400 per piece. But their price as well as their variety has increased. The present actual price is between Tls. 3,500 to Tls. 6,000 per piece. The effective 5 per cent tariff duty should therefore be from Hk. Tls. 0.175 to Hk. Tls. 0.300 or over.

IV. Drills grey or white—not exceeding 27-31 inches wide and not exceeding 40 yards long. The duty is now Hk. Tls. 0.125 per piece on the 5 per cent basis of the formerly estimated value of Tls. 2,500. At present, however, both the price and varieties of goods have been increased. For example, the Japanese goods which have a predominant place in the Chinese market are worth from Tls. 3,600 to Tls. 4,500, while the British and American goods have advanced in their value to Tls. 4,000 or Tls. 5,000 per piece. Thus the effective 5 per cent tariff should be from Hk. Tls. 0.180 to Hk. Tls. 0.250 per piece in accordance with their respective price and quality.

V. Jeans grey or white:

(a) Not exceeding 27-31 inches wide and not exceeding 30 yards long. The present tariff duty is Tls. 0.090 on the basis of the cost value of Tls. 1,800 per piece. Both the cost value and the varieties have increased lately. Their prices now vary from Tls. 2,700 to Tls. 4,000. Thus the effective duty should be approximately from Hk. Tls. 0.135 to 0.200.

(b) Not exceeding 40 yards long. The present duty is only Hk. Tls. 0.120 on the basis of cost value at Tls. 2,400. But the present prices are from Tls. 3,800 to Tls. 5,000 according to their qualities. Thus the effective duty should be from Hk. Tls. 0.190 to Hk. Tls. 0.250.

VI. Dyed figured cottons.—Not exceeding 27-36 inches wide and not exceeding 30-33 yards long. The customs duty is at Hk. Tls. 0.240 per piece on the 5 per cent basis of the price estimated at Tls. 3,000 only.

According to his detailed calculations the amount of underpayment to the customs is enormous.

Both the price and varieties of these imports have increased. The market prices are from Tls. 3,200 to Tls. 13,000 in accordance with their qualities. The effective 5 per cent duty must be from Hk. Tls. 0.160 to Hk. Tls. 0.650 per piece. Under this item the names given to the goods have been most complex and their varieties most numerous. They must be minutely investigated in order to obviate the evasion of taxation.

VII. Dyed plain cottons.—Not exceeding 27-36 inches wide and not exceeding 30-33 yards long. The customs duty is at Hk. Tls. 0.240 per piece on the 5 per cent basis of the estimated value of Tls. 4,800. There is also an increase in both the price and the varieties. The market price is from Tls. 3,400 to Tls. 13,000 according to the quality. The effective duty should be from Hk. Tls. 0.170 to Hk. Tls. 0.650 per piece.

VIII. Kerosene oil.—Two kinds:

(a) Per case of 10 American gallons. It pays Hk. Tls. 0.070, as the price was Tls. 1,400 per case. But the present market value is Tls. 2,200; the effective duty should be Hk. Tls. 0.110.

(b) Kerosene oil in bulk pays Tls. 0.050 per 10 American gallons. The original estimate of its value was Tls. 1,000 each. But the present value is from Tls. 1,600 to Tls. 1,800: the effective duty should be from Hk. Tls. 0.080 to Tls. 0.090 each.

IX. Cigars. The customs duty is Hk. Tls. 0.500 per thousand, the original estimate of their value being Tls. 10,000 in that quantity. The present prices run from Tls. 20,000 to Tls. 100,000. The effective duty should therefore be from Hk. Tls. 1,000 to Hk. Tls. 5,000 according to their varieties. The duty on tobacco is entirely too low and the rate should be rearranged.

X. Socks. The custom duty is Tls. 0.032 on the basis of original price of Tls. 0.640 per dozen pairs. Now there are many varieties. The price per dozen pairs varies from Tls. 0.600 to Tls. 2,800 according to the quality. The effective 5 per cent duty should be from Tls. 0.030 to Tls. 0.140. The demand for foreign socks has become very great. The native imitations cannot compete with the imported goods, partly because of the high cost of production and partly because of the hindrance of the *likin*.

These ten articles are only typical of a large number of other imported goods. Detailed statistics comparing the present prices of forty-four other important imports with the original value estimated by the customs department have been compiled by the same author.

6. SUMMARY OF THE ABOVE CONSIDERATIONS

To recapitulate what has been said, the entire system of the customs tariff together with that of internal taxation on trade is a destructive hindrance not only to the development of industry and commerce but also to the production of revenue for the government. The absence of any tariff policy, the injustice in the treaty stipulations and the corrupt practices on the part of officials have practically destroyed a large part of the trade, domestic and foreign. The shortage of revenue is due partly to the high cost of collection in the case of inland *likin* and other taxes and partly to the imports failing to contribute their fair share of duties to the government. At present the diminution in the customs receipts has become even more serious, owing to the sacrifice of the opium revenue. In 1908, while the total amount of import duties and inward transit dues was Hk. Tls. 14,521,578, the opium duty and *likin* amounted to 7,672,784 taels, being about 53 per cent of the entire charges on import trade. With the rapid disappearance of the opium traffic, the government finds great difficulty in securing any compensating revenues from the customs.

As a temporary remedy two measures have been suggested: one is the revision of the tariff so as to make foreign trade pay an effective 5 per cent duty; the other is to ask for an increase of the tariff together with the abolition of the *likin* as provided in the British treaty of 1902.

CHAPTER VI

THE INLAND TAXATION IN ITS RELATION TO THE CUSTOMS TARIFF

GENERAL STATEMENT

Inland taxes on imported goods. Customs and tonnage dues are not the only forms of governmental income. In order to meet the various expenditures, civil and military, every state has to resort to other sources of revenue, such as the income tax, the general property tax, and excises or taxes levied on certain articles of consumption, liquor and tobacco being the most common. Those taxes are imposed not only upon domestic products but also in the same manner upon imported merchandise.¹ When the articles imported are subjected to inland taxes, the latter must be paid in addition to the regular import duties. The levying of inland taxes on foreign imported merchandise may, or may not, be regulated by international agreements. In the former case, according to Dr. Fisk,

one of the two methods generally prevails. Either nations mutually agree that they will exact of each other no other or higher taxes, charges, or requisitions than are levied on the property of their own citizens or subjects, or they stipulate they will exact of each other no higher duties than are levied on the property of citizens or subjects of any third nation.

It is then clear that no independent nation can be compelled

¹ G. M. Fisk, *International Commercial Policies*, pp. 127-130.

by any other power to discriminate in taxation against its own subjects and products in favor of foreigners and foreign imports.

Inland taxes on domestic products for exportation. An internal tax which is imposed upon a native product destined for foreign markets will have the same effect as an export duty. Such a tax, by increasing the original cost, hinders international trade. The general policy of modern states is not to check, but to foster domestic industries; and native products are usually exempted from inland levies. But the rule of exemption must be uniform throughout the whole country wherever and whatever the dealer may be. The duty-free privilege should be given only to those goods which are exported, and to nothing else.

The peculiar development in China. Over against these above principles and international practices, China has developed a special system regarding inland taxation on foreign imports and domestic goods for exportation. She has, through her dire necessities and foolish policies, allowed herself to be entangled in a most complicated situation. Since the Taiping Rebellion in the middle of the past century, and as a result of other internal and external troubles afterwards, the financial necessity of the government has been the only justification for the existence of the export and coast-trade duties.

But for more than a half-century¹ domestic products purchased by foreigners for exportation have been permitted to pay a commutation duty which is far below the rate of the internal tax to which the Chinese and their property, whether for exportation or not, are subjected. Indeed some of the Chinese have also secured the same privilege by malpractices, connivance, purchasing

¹ Since the Tientsin Treaty with Great Britain in 1858.

under foreign names and thus evading the legal duty at the expense of other legitimate native traders.

As regards the inland taxation on foreign imported merchandise, the condition is no better. The practice of exempting imported goods from all further internal imposts between the port of entry and the interior destination—no matter how distant it may be from the coast—after they have paid only a slight commutation tax at the first port dates from an even earlier period, this provision being found in Article X of the Treaty of Nanking in 1842. Moreover, the British merchants have oftentimes claimed that their goods are to be free of any inland charge whatsoever, even after they have passed into Chinese hands and gone to interior markets. This privilege they have at last obtained through the following declaration in Section 8, of Article XIII of the British Commercial Treaty of 1902, to the effect that “the fact of goods being of foreign origin shall of itself free them from all taxation, delay, or stoppage, after having passed the Customs House”. In order to understand the whole situation, a brief survey of Chinese inland taxation, so far as it is connected with customs duties, seems to be necessary.

INLAND TAXATION

The likin. ^{*}For centuries the internal taxes in China had been the land tax, the salt gabelle and other miscellaneous imposts. When the *likin* was introduced, it became, from the standpoint of foreigners, the most important tax problem in China, even though they do not bear the same burdens as the Chinese, owing to special privileges given them by treaties. Up to quite recent times, China, like other countries, was content to tax the movement of merchandise at seaports only, although there had been some old customs on the trade routes by land and river. The exigencies of

recent times, however, drove the government to devise a new tax, that is, the *likin*, which meant in the beginning only a contribution of a thousandth, or one-tenth of one per cent, but which was afterwards considerably increased.

It was first imposed in 1853, but in 1861, when the Taiping and Mohammedan Rebellions were both in progress, the tax was extended throughout most of the provinces. Now, *likin* stations exist at all large towns and along the main routes of trade—both by land and by river. The rate of *likin* is not uniform in the country. But, as a rule, the tax collected is three per cent at the station of departure and two per cent at each inspection station. The amount collected within a province, however, does not perhaps exceed ten per cent, but when goods are transported through several provinces it may amount to fifteen or twenty per cent. That the *likin* is a great obstacle to trade, foreign and domestic, goes without saying. It is the financial necessity of the present government that keeps it in existence, as the *likin* yields more than any other imposts except the land tax, the salt gabelle and maritime duties.¹

Many important defects of the tax, however, must be recognized. In the first place, it has no definite rule and is subject to arbitrary arrangements of the officials in charge. Secondly, it is generally collected in transit instead of at the place of consumption, thus constituting an effective bar to trade. Thirdly, it taxes, in large part, daily necessities and inflicts a heavy burden on the poor. Fourthly, the cost of collection is extremely high, and, finally, it is honeycombed with corruption on account of the officials in charge being underpaid.

But the recognition of these important defects of the

¹ According to the "Revised Budget" for the year 1913, the total land tax was \$82,403,610; salt revenue, \$77,565,534; customs duties, \$68-224,283, and *likin* \$32,710,860.

likin does not mean that foreigners and foreign goods should be exempt from it while the Chinese themselves are under its yoke, nor that some of the Chinese who try to evade the duty by securing foreign help should be privileged at the expense of the rest of the citizens. The reason that the British merchants have gone so far as to demand the entire exemption of their goods from *likin* or other taxes of a similar nature is, of course, that they have taken advantage of the ambiguous wording of the Articles in the Nanking and Tientsin Treaties concerning "transit pass", as will be fully explained below.

THE "TRANSIT PASS" SYSTEM

General statement. The levying of duties on goods in transit or on entry into cities and towns is a fiscal method which has prevailed, and which still exists, in some parts of Europe. France and Germany, for instance, not long ago were noted for their extremely extensive system of internal customs and tolls. In France to-day what may be called municipal customs are still found under the name of *octroi*. Not until the conclusion of the Zollverein in Germany, did Prussia initiate the movement to reform the internal customs and tolls on the transport of goods and travelers.¹ Nevertheless, down to 1867, such dues as *Pflaster-, Brücken-, Damm-, Fahr-gelder* (pavement, bridge, dyke, passage tolls) were levied, besides the *Chausséegeld* which was only abolished in 1874.

Thus transit dues, however vexatious and mischievous their operation may be, have not been entirely abolished even in some of the most industrially advanced countries in Europe. It is therefore unreasonable for foreigners in China, where there is great need

¹ Palgrave, *Dictionary of Political Economy*, vol. ii, pp. 439-40.

for revenue—a fact which is largely due to the absurdly light customs duties on imported goods—to ask for any special privilege of exemption by paying only a half-tariff duty of two and half per cent, and to be freed from all inland charges whatsoever. The principle of the “transit-pass” system provided in treaties is, however, on the contrary, intended to secure a discriminative treatment for foreigners in the matter of internal taxation as compared with the Chinese traders.

Transit dues on imports. The whole matter may be conveniently divided into two parts, namely, transit dues concerning imports and those concerning exports. The former provision in favor of foreigners is found in the British treaty of 1842 after the Opium War, while the latter was not taken up until the Tientsin Treaty in 1858, after another military experience with coercion. The reason for this differential treatment on the part of the British probably is that at the former date the old Canton factory merchants (British) were particularly anxious to get such an immunity for imported merchandise—a demand that has of course, been increased in scope from time to time. “But later¹ the question of bringing produce from the interior for sale at the Treaty ports became a more pressing one as the demand for China produce became greater than the local market supply could meet.” The first international stipulation with reference to transit dues on imported goods appears in Article X of the British Treaty of 1842 which provides that

duty paid imported merchandise may be conveyed by Chinese merchants to any province or city in the interior of the Empire of China, on paying a further amount as transit duties, which shall not exceed—per cent on the tariff value of such goods.

¹ Robert Bredon, *China, Tariff Revision, etc.*, p. 11.

It seemed for a while that China still had the right to fix the amount of these transit dues. This right was however promptly limited by a subsequent declaration made at Hongkong in June, 1843 in which it was stipulated that the rates of transit duty "shall not exceed the present rates which are upon a moderate scale."

Even then, in the fixing of the amount of the tax, something like independence was still left to the Chinese Government. That independence, however, the Government has failed to exercise owing to its old *laissez-faire* policy. Sir Robert Bredon is probably right, when he says ¹ "if a proper system had been made known and a just tax levied, British trade would have demanded no special privileges and many later foreign questions would have been avoided."

But China was a country of misfortune. In Article XXVIII of the 1858 Treaty at Tientsin, a new arrangement was provided. This article, by proclaiming that transit duties "are suddenly and arbitrarily imposed—upon produce on its way to the foreign market"—i. e. native produce from the interior—"and on imports on their way into the interior" and demanding that the amount of duties leviable upon such produce should be declared and published, finally introduced an arrangement by which British merchants can by a commutation payment clear their goods of all transit duties from a port to an inland market. This arbitrary yet obscure stipulation gave rise, as will be seen, to much of the later contentions of both parties.

Contentions on the subject of transit dues and their further development. As a matter of fact, the transit pass system provided by these treaties is far from being practicable in China. But the root of the contentions between the Chinese officials and British merchants lies in the am-

¹ Bredon, *op. cit.*, p. 10.

biguity and incompleteness of the provision. For instance, the second paragraph of Article XXVIII of the Tientsin treaty says that the commutation payment shall exempt the goods from all further inland charges whatsoever which seems to mean transit dues, since nothing but transit dues are dealt with in it. Even rule VII appended to this treaty does not express this principle clearly. For it says that Article XXVIII "shall be interpreted to declare the amount of transit dues," "merchandise shall be cleared of its transit dues," and "no further duty will be leviable upon imports thus having paid transit dues, no matter how distant is the place of their destination." This rule, then, tries to secure the privilege or immunity without any regard to time, condition or circumstances whatsoever. Hence the contentions of both sides. On the Chinese part, it has been claimed that duty-paid goods are liable to *likin* or other taxation if in the hands of a Chinese dealer; that goods accompanied by a transit-duty certificate are free only of dues at the barriers at which transit dues are collected and that on arrival at the inland center to which the imports are to be carried, they are subject to any taxation that may be imposed upon them. In other words the Chinese officials take the "inland charges" to mean transit dues and transit dues only. British merchants on the other hand, have maintained that by treaty the payment of the tariff duty should protect their goods from all further taxation until the passage of a barrier renders necessary either the payment of the transit dues, or the production of a customs certificate showing payment of the half-duty commutation. They further claim that the imports having paid both tariff and transit duties—7.5 per cent in all—should thereafter be free of all taxation whatsoever.

This question of transit dues became the center of attention when Sir R. Alcock took up, in 1867-8-9, the revision

of the Tientsin Treaty. With a conviction that it was impossible for Great Britain then to strike a blow at the *likin* tax in China, and at the same time with intention of meeting some of the demands of British merchants the British Minister — Alcock — arranged an Article (Art. III) in his treaty, embodying the principle that specified imports—such as cottons, linens, woollens, woollen and cotton mixtures, *etc.*, in which the British were most interested—were to circulate freely in treaty-port provinces—nine of them at that time—after simultaneous or compulsory payment of import duty and transit dues. This arrangement, as not only Sir R. Alcock himself but also later Sir R. Hart and Sir T. Wade (all British) agreed,¹ is

a most important concession, for it permits manufactures (in goods whose sale England is chiefly interested) to circulate freely without certificate, and without further charge or tax, on payment of 7.5 per cent, through treaty-port provinces. It is a concession far in advance of the Tientsin transit clause as regards one-half of China, and as regards the other half, the former transit privilege is continued.

The only difference between this and the previous provision is that the commutation of the transit dues which hitherto had been optional was made compulsory regarding certain specified imports. The British merchants, however, held a different view by saying that, instead of being a step in advance, this stipulation was “a distinct forfeiture of a former treaty privilege,” because it meant an abolition of the transit-duty certificate, which they thought was too high a price to pay for the “uncertain advantage.” The result was that the so-called “Alcock Treaty” was not ratified after its signature.

¹ Report of Sir T. Wade, July 14, 1877.

This led to the Anglo-Chinese Chefoo Agreement made between Sir Thomas Wade the British Minister and the Imperial Commissioner, Li Hung Chang. This convention while it went somewhat further so far as the working details of the transit system are concerned, has not cleared up the fundamental difference. The fact, however, established by long practice, seems to be that, while any inland tax on trade is not allowed in treaty ports,¹ China's right of imposing destination taxes and other internal imposts after the surrender of the transit pass, so far as these taxes are moderate, is not questioned. And, en route, duty (customs)-paid imports which are to be conveyed into the interior may be covered by a pass certifying payment of an additional half duty. That pass can be demanded by both foreigners and Chinese and is interpreted as entitling the bearer to pass the goods at every *likin* station or station of whatever kind, so long as they are actually in transit to a declared destination. The sale of these goods in transit is permitted under certain regulations.

Transit dues on Chinese produce for exportation. Under the existing system, again, the foreigner receives special privileges over the Chinese. By this arrangement the most mischievous practice on the part of both foreigners and Chinese has arisen and a most vital obstacle placed in the paths of the provincial authorities. Article XXVIII of the Tientsin Treaty provided that the inland tax rates shall be published in notification form "in English and Chinese for general information." From this it might seem that both British and Chinese carriers should without discrimination pay the published duties. But a special paragraph stipulates that it is only the British who have the option of conveying goods purchased inland to a port by a commuted

¹ This is settled in section 3 of the Chefoo Agreement.

payment, while the Chinese are denied such privilege, directly or indirectly. In Tariff rule VII a clause described that the goods here meant were "produce purchased by a British subject in the interior." Another clause says that only produce actually to be exported can be brought from inland to a port with transit pass.

In 1876, by the Chefoo Convention (Section III, 4), it is again emphasized that the privilege applies to goods "*bona fide* intended for shipment to a foreign port", and that it is the produce in which a British subject is "interested." But the word "interested" may mean anything. At present goods are brought from the interior to the ports under a transit pass on Chinese account but are never exported. It has become a regular business for foreigners to sell their names to unscrupulous Chinese to cover goods in which they have no interest whatsoever. In this way they not only evade the tax but also inflict injustice upon the more honorable natives when the goods of the former are put on local markets at reduced costs. For the protection of the revenue the local officials have sometimes refused to issue such transit certificates. This, however, has led to diplomatic troubles. The reconsideration of the whole question is, therefore, advisable for the good of all parties concerned.

FUNDAMENTAL TROUBLES OF THE TRANSIT-PASS SYSTEM

Interpretation of the Treaties. As has been pointed out above, British merchants have always claimed, for their duty-paid merchandise in transit or at destination, exemption from not only further transit dues but also from any inland taxes whatsoever. This extreme of interpretation of the treaties is however opposed not only to the Chinese contentions but also to the view of many British representatives in China. Not to speak of Sir Rutherland Al-

cock, Sir Thomas Wade and many others who did not accept the views of British merchants as expressed in their memorials for the revision of the Tientsin treaty, Lord Clarendon, the then Secretary of State on Foreign Affairs, has in a long passage opposed the contention of the "memorialists." After reviewing all the previous treaties and their appended rules he said:

H. M. Government are unable to discover in either of the Articles recited, or in the rules which explain them, any thing which gives color to the view of the mercantile body in China as to the scope of those provisions in exempting foreign produce from municipal taxation, whether general or local, when it has once passed into circulation in the country." "In neither case"—in the case of imports as well as exports—"can it, they think, be legally intended that there is any thing to prevent the Chinese from charging whatever general municipal taxes which are leviable on Chinese goods at the port or in the interior, as regards imports, equally on foreign goods when once they enter into general circulation and consumption, and, as regards exports, upon Chinese produce, before it is purchased for foreign exportation.¹

Mr. Wade, in his memorandum of 1868 respecting the revision of the Tientsin Treaty, has made the situation still more clear when he said that had the civil war in 1858 in China, to which the people owed the great rise of war taxes throughout the Yangtse valley, been foreseen, "no treaty provision could have been devised that would have afforded imports the protection that our merchants (British) conceive they are entitled to."

The Treaties are unreasonable. That by these treaty stipulations China's independence has been endangered is not denied even by foreign authorities. In continuing his

¹ *London Times*, Mar. 1, 1870, pp. 10 *et seq.*

remarks, above mentioned, Lord Clarendon went so far as to say,

Even if H. M. Government had shared the view expressed by the memorialists as to the construction which should be placed upon the treaty stipulations bearing (*sic.*) this question, it would have been their opinion, (*sic.*) very desirable that those stipulations should be revised and modified. It has been formed after ten years' experience, that those stipulations are of a kind which the Chinese Government are on the one hand, unable, even if they were willing, to fulfill, and which H. M. Government, on the other hand, would be unwilling, even if they were able, to enforce. When treaty engagements have thus condemned the practice, the sooner they are revised the better; for their continuance can lead to nothing but dispute, inconvenience, and disappointment." Indeed, in his "The Real Chinese Question"¹ Mr. Holcombe spoke of this particular problem almost in indignation by saying "These discriminations are all against native merchants and native merchandise, and are directly calculated to drive both out of the market. Again, what Government, except it be that of angels, could be expected to regard with favor, or to foster with open hand, a commerce thus protected solely in the interest of aliens?

It is to be regretted that things are still being allowed to drift without any final settlement.

PRACTICAL DIFFICULTIES AND ABUSES

Why is the transit-pass system unworkable? In a space so limited only a brief answer to this question can be given. The main difficulties are that the system does not recognize the governmental organization and financial needs of China. China has been a decentralized country. In the

¹ Chester Holcomb, *The Real Chinese Question*, p. 14.

early days especially, each province was a little kingdom in itself. It managed its own taxation and finance. Whatever went to the central government was not to be shared by the province. By the treaty stipulations under discussion transit dues and a great part of *likin* are to be paid at the custom house to the central government, being thus taken away from provinces to which they used to belong.

Moreover, at the time of the introduction of *likin*, the provinces were sorely in need of revenue. Since 1853 the Taiping, the Nie Fei and the Mohammedan rebellions have not only ravaged the greater part of the country but reduced the yield of land tax which was almost the only internal impost. For several years two-thirds of the land tax could not be collected. In the salt department the account with the state was always in arrears. The sundry taxes fared no better. Even with the customs duties, which were already meagre and fixed by treaty, two-fifths of its total collection from 1860 to 1865 had to be handed over to Great Britain and France as war indemnity. Under such circumstances the provincial authorities had to find some support for their ordinary civil and military establishments, to say nothing of the large bodies of militia needed to suppress the rebellions. As a consequence all the provincial expenditures have been increased at an unusual rate. It is therefore no wonder that such a transit-pass system, which does not take into consideration the immense size of the Empire or the provinces to be passed through, nor of the fiscal administration of the country, can not be successfully carried out.

The abuses. That the transit-pass system is unworkable is due not only to the fact mentioned above but also to the malpractices of the merchant, native and especially foreign. Most of the instances of selling foreign names to Chinese merchants are found in the case of conveying produce from the interior to the ports. This is done under what is

known as "lie hong," that is, in the names of the foreigners who start a nominal business for the particular purpose of enabling the natives to evade the duty. Early in the sixties in a report of the Imperial Commissioner of Customs at Ningpoo, we find this paragraph:

The export of cotton from the port is trifling in the extreme, yet almost the entire produce of this article comes from the interior declared foreign property. The sale of transit passes is assuming almost sufficient importance to be a business of itself. Merchants obtain them for thousands of bales monthly, and at the rate of five cents a bale they are eagerly sought for native merchants, who are thus enabled to evade payment of many local imposts, to which, as Chinese subjects, they are lawfully liable. The result is that upon patriotism alone can the Government depend to tax the native merchants and native produce. In the case of imports, such practices are also found.

It is a well known fact that Canton sugar used to go to Hongkong which is a free port in native vessels, to be thence sent in foreign bottoms to treaty ports, claiming transit privilege as having acquired a foreign character. The sooner the system is revised, the better it will be for the interest of China and for the reputation of the Powers.

THE SOLUTION OF THE PROBLEM

The abolition of the likin. By the existence of *likin* the mischievous operation of the transit-pass is rendered possible. The solution of the whole problem lies therefore in the abolition of *likin*. By Article VIII of the British Treaty of 1902, it was established that on the one hand China was prepared to plan for the total abolition of *likin* on foreign goods in return for an import surtax; while, on the other hand, Great Britain agreed to support the arrangement. But by the abolition of *likin* is now meant the total

withdrawal of all tax barriers on highways and waterways collecting various kinds of taxes generally known as *likin*, including native customs charges, local taxes on special articles or general produce, foreign and native.

Owing to the fact that the *likin* yields a large sum to the government a sufficient compensation for the loss thus resulting from its abolition must first of all be secured. To this end the preparation is to be divided into two parts. For inland taxation on foreign goods imported a surtax to the extent of 7.5 per cent *ad valorem* was provided for in the same treaty. Besides, with the revision of the present tariff to an effective five per cent basis, the revenue can still be increased. For the inland taxation on native goods either (a) in transit to an open port or railway market for foreign export or (b) for purely Chinese consumption or use in localities remote from the place of production, a consumption tax on certain articles specified has been suggested. A tax on liquor alone on a moderate scale is said to be sufficient to meet the requirement. The sentiment in China has now become bitter against any taxes on the movement of trade and in some provinces, especially on the railways, *likin* has already been abolished. It is to be hoped that the whole system will be done away with in the near future.

CHAPTER VII

FRONTIER AND "REGULAR" CUSTOMS TARIFFS

ASIDE from the maritime customs tariff, there are in China special systems of commerce both on land frontiers and in the interior. The former are regulated by frontier customs, the latter by Chang-kuan or regular customs establishments. Both of them differ from the maritime customs in their management as well as in their schedules of tariff rates.

I. FRONTIER CUSTOMS

Frontier customs differ from regular customs. In the first place, frontier customs exist only on the land frontiers, consisting of duties on exports as well as on imports, while regular customs are found on highways and waterways mostly in the interior without any relation to foreign trade. In the second place the management of frontier customs is mainly under the Inspector-General of maritime customs, while regular customs were formerly controlled by the Board of Public Works as well as by the Board of Revenue and are now chiefly under the latter—(its present name is the Board of Finance) although some of them have since 1902 been annexed to the Maritime Customs Department. In other words, regular customs belong to internal taxation while the frontier establishment has to do only with foreign trade. The frontier system was at first instituted in favor of Russia, and then toward the end of the nineteenth century extended to France and England in their colonial pos-

sessions in the southwestern border of China and finally to Japan after the annexation of Korea by the latter country. The following is a summary of the development of the system of frontier trade with reference to different countries.

2. RUSSIA IN EASTERN TURKESTAN, MONGOLIA AND MANCHURIA

Early treaty provisions. By the Treaty of Nertchinsk in 1689, a regular Russian commerce was authorized in the frontier regions of China. But a scheduled tariff was provided for the first time in the agreement of 1862, revised and succeeded by the convention of April, 1869, concluded at Peking. This diplomatic instrument was still in force until recently in all its parts which had not been modified by the Treaty of St. Petersburg of 1881. Russian subjects were allowed to carry on trade free of duties in Mongolia subject to China as well as in places of *animaks* where there was a Chinese administration, and in those where there was none, in addition to towns and other localities in the provinces of Ili, of Tarbagatai, of Kashkar, of Urumchi and others situated on the two slopes of Tienshan up to the Great Wall of Chiayu-Kuan, the terminal of the Russian caravans.

The regulations attached to this treaty, which set out the routes and governed the trade, stipulated that "a trade by free exchange and free of duty between Russia and Chinese subjects is authorized within a zone extending for 50 versts (100 li) on either side of the frontier." But when the Russian merchants desired to carry on trade in the interior provinces of China, their merchandise was no longer free. That trade can be conducted only through a definite route; that is, it is obliged to follow the route from Kiakhta to Urga, from there to Kalgan, and from that city to Tientsin. Before crossing the Siberian frontier, the

Russian merchants must be provided with certificates from Russian authorities which must be countersigned by Chinese agents residing at Kiakhta, specifying their names and those of their following as well as the nature and quantity of their merchandise; and they must on the way submit their goods accompanied with certificates for exemption by the authorities of the Chinese customs-house or other competent authorities. Fraudulent and clandestine sale is prohibited on the way, except at Kalgan. On arriving at Tientsin, the Russian merchants must pay for their merchandise imported through the land route an entrance duty in the proportion of two-thirds of the general tariff rates of the maritime commerce. For the merchandise which they sell at Kalgan, they have to pay the entrance duty at the full tariff rate, but in case the same merchandise is sent off to Tientsin, there is a reimbursement of one-fourth of the duty paid. Finally, if the said merchandise imported by land to Tientsin is to be transported by sea into other open ports, it has to pay again that one-fourth of the customs duty which has been restored to it.¹

Thus the Russian merchants have been given by China two main privileges as regards their trade in Mongolia and Eastern Turkestan, that is, the free-trade zone along these frontiers and a reduction of import duty to the extent of about 33 per cent of the maritime customs rate. Later with the development of Russian influence in Manchuria, the same privileges have been extended to that region.

¹ Chinese goods for export which are purchased either in the interior or in the open ports and which are to be transported into Russia by the same land route, pay the export duty at the full tariff rate, but they cannot again be taxed by any other duty such as the *likin*. And the Russian merchant can buy in China those products imported from foreign countries and transport them into Siberia without paying any export duty, if these importations have already paid the entrance duty and the transit-pass duty.

The abolition of the free-trade zone. The treaty of 1881 provided in Article XV that at the end of each ten years either party desiring a revision could open negotiations with that object in view. It furthermore provided in Article XII that the privilege of free trade in certain parts of Mongolia and Eastern Turkestan "shall cease when the development of trade shall necessitate the fixing of a customs tariff, after agreement between the two countries." This immunity China has always sought to eliminate, since the trade in those regions has been rapidly increasing. In 1911 proposals were submitted by the Chinese Government to Russia and negotiations were opened at St. Petersburg, the result being the presentation by Russia to China of a set of counter proposals. This was on October 25, of the same year. China made no further move in the matter, nor did she answer the proposals of Russia, though pressed to do so from time to time. A year elapsed, and in October 1912, a year after the Revolution broke out, Russia presented a note to China traversing the position and agreeing to abolish the free-trade zone. But meantime, the Mongols had declared their independence of China and were in active consultation with the Russian Commissioner, M. Karostevetz, former Russian Minister at Peking, with the idea of completing an agreement with Russia. The Urga agreement signed in November that year secured to Russia the rights which she had long desired and even much more than she had demanded of China originally. The Russian plot in Mongolia, however, resulted later, in utter failure. This paved the way for the new arrangement of 1914. From the 1st of June of the said year the free-trade zone of both the Chinese and the Russian sides of the frontier has been abolished. This step thus brings to a close an arrangement that had been in force between China and Russia ever since the year 1869 and confirmed in 1881. Now there remains

the other irregularity, that is, the special rebate of one-third of the general tariff to the Russian trade in China. The abolition of this immunity has been in consideration since 1914 and it is to be hoped that it will soon be effected.

3. JAPAN IN MANCHURIA

The Russian privilege shared by Japan. By the railway agreement between Russia and China in 1896, Russian goods imported through the Manchurian frontier were given the privilege of payment of only two-thirds of the ordinary tariff duty and that payment further exempts these goods from any duties whatsoever along the railway, or while on railway property. This arrangement was reconsidered in 1907 when, by the Northern Manchurian Customs agreement, the railway's property at each station along the Russian Manchurian railway was defined, at smaller stations as an area of five li radius, and at Kharbin, where the property is extensive, as an area of ten li radius. The payment of the two-thirds of the maritime duty by these goods remains the same.

After the Russo-Japanese War, the Japanese occupied the southern portion of the railway. In June 1913 exactly the same franchise was granted to Japanese goods entrained at Antung (a land frontier customs station near Korea) for places in Manchuria. In Southern Manchuria the customs tariff is at present that in operation in other parts of China, except in Antung where the said special arrangement prevails. As a consequence Japanese goods imported to Manchuria by Korean railways have gained special advantages over goods from any other countries since there are special customs duties for them at Antung in addition to special rebates to them on Manchurian railroads and special freight rates through Korea. The result was that in the ten years between 1903 and 1913,

Japan's trade increased in Manchuria 75 per cent and the trade of Great Britain fell off 25 per cent, while the trade of America decreased 75 per cent. Another striking success of Japan as a result of this move is seen in the fact that in the first seven months after the reduction in the railway charges and the customs duty the quantity of goods bonded on the Korean railway increased by 258 per cent. These goods were almost entirely of Japanese origin.¹

The privilege of a rebate unreasonable. This system of rebate is a most unreasonable arrangement because it was granted by China without condition. The rebate amounts to one-third of the nominal, but ineffective, duty of five per centum. And this rebate which used to be a difficult problem when the free-trade zones between China and Russia and Japan existed, has become an even more acute question since its abolition. The amount at present lost to the customs revenue is not very large. It was in the year 1914 about Hk. Tls. 33,000 in the case of Japan and Hk. Tls. 100,000 in the case of Russia. But frontier traffic is likely to increase both with these two countries and with countries on China's southern border: and the latter have claimed, and will claim, the same exemption under the most-favored-nation clause. In fact the traffic across land frontiers is bound to grow enormously, especially with the building of some of the great railway systems that have been planned — across Mongolia to the Trans-Siberian, from Haichow to Lanchow and thence to the Central Russian railways, from Yunnan to Burma, and so on, with the extensive development of the already existing lines.

The one-third rebate is simply a relic of old Russo-Chinese relations. It was perhaps justifiable in the days when the trade between Russia and China was slow and costly. With

¹ *The Far Eastern Review*, Shanghai, May, 1915, p. 487.

the entire change of circumstances at present, however, this has become unnecessary and oppressive, and there is no longer any valid reason for its retention. Moreover, if after the Mackay Treaty is carried out, approving of the abolition of *likin* and other similar taxes and the substitution therefore of a higher customs tariff, the Russian and the Japanese Government should still maintain the rebate on the ordinary rates, the advantage of the treaty will be seriously impaired.

4. FRANCE AND GREAT BRITAIN IN SOUTHERN CHINA

Similar privileges given to their commerce. Following the French aggrandizement in Tongking in 1884, commerce between China and Annam was regulated by the treaties with France of April 25, 1886 (Cogordan) and of June 26, 1887 (Constans), completed by the additional convention of June 10, 1895 (Gérard). By the first treaty, two ports were opened to French trade, namely, Lungchow in Kwangsi and Mengtzu in Yunnan. Imports were to be taxed according to the general tariff, diminished by one-fifth, while the export duty on goods from these two open ports to Annam was diminished by one-third. But this concession was not to apply to the frontier of Kwangtung where an open port already existed. In spite of this special privilege, it was a disappointment to the French people. M. Cogordan, the first French negotiator, was called back, and succeeded by M. Constans. Then by the second and third agreements two additional ports were opened in Yunnan, that is, Hekow (on the Red River) and Szemao.

The special tariff rates were also modified and further reduced: "foreign goods imported to Yunnan and Kwangsi from Tonkin shall pay seventy per cent of the import duties collected by the customs at the coast ports in China, and produce exported from China to Tonkin,

shall pay sixty per cent of the export duties in force at the treaty ports." ¹

This preferential treatment, however, was immediately followed by British protests and counter actions. These resulted in the British Convention of 1886 which was completed by that of 1894, with elaborate arrangements dealing with the rectification of the frontier and the organization of overland trade. The customs duties were to be those of the general traff, less three-tenths on imports and four-tenths on exports. Besides, Yating in Tibet and Wuchau on the West river were opened for British trade in 1893 and 1897 respectively. The rebate tariff system here like that in Northern China has no reason for its existence and efforts have been made by the Government for its abolition.

5. "REGULAR" OR NATIVE CUSTOMS

"*Regular*" or native customs different from *likin* stations. The so-called regular customs differ both from the frontier custom as has been pointed out above and also from the *likin* stations. In the latter case the difference consists of many items. (1) The regular customs have existed in China for centuries while the *likin* is an innovation of the middle of the past century. (2) The *likin* was under the absolute control of governors who were in command of the military forces as well as in charge of war revenue. The practice existed only until 1911 when its control was transferred to the central government through the agency of Kuo-sui-ting or National Bureau of Taxation, newly established in the provinces. The regular customs have, on the other hand, always been managed either directly or indirectly by both Boards of Public Works and Revenue or Finance, and its yield is intended to meet expenditures of

¹ This is provided by art. iii of the "Additional Convention between France and China, 1887," and confirmed by the convention of 1896.

the central government rather than, as in the case of *likin*, to meet exigencies in the provinces. (3) Of the regular customs tariff, the rates on both junks and merchandise have usually been specific, though the "Reorganization" since 1913 has brought about some changes from specific to *ad valorem* duties; while *likin* has from its origin theoretically been an *ad valorem* duty of one-tenth of one per cent. (4) Finally, it is to be noted that the distance between each native customs is greater than that between each *likin* station; but the delay and obstruction to the trade is greater in the case of the former than in that of the latter.

There are, however, resemblances between these two taxes: (1) Both of them tax goods in transit. (2) Both tax foodstuffs, articles of common use, sundry goods and so on, and therefore constitute a great burden on the poor and on traders in general. (3) In both cases there is lack of uniformity in the schedule of rates and the mode of administration.

6. HISTORICAL SKETCH

Regular customs; an unimportant branch of revenue. Regular customs are found as far back as the end of the Chow Dynasty—about 2,000 years ago. The original purpose of the duty was regulative rather than fiscal, it was intended to check the progress of commerce as a result of the theory of statesmen and economists at that time, in favor of agriculture. Since then there have been many changes in the system and the principle involved has now become one for revenue rather than for regulation. Custom-houses are at present found on the seaboard as well as on rivers, canals, land routes and land frontiers. They are called Regular Customs as distinguished not only from the Maritime Customs but also from the new establishments, like *likin* taxes.

Since the opening of foreign trade, these native custom-houses stand side by side with the maritime customs offices

at the treaty ports, as well as at all important stations on the coast and inland, although they have different jurisdictions. Commodities carried by sailing vessels are taxed by the Regular Customs, while those conveyed on board steamers pay their duties to the Maritime Customs. Formerly there were forty-four custom-houses with one hundred and fifty-six branches under the Board of Revenue and seventeen under the Board of Public Works. Now, all of them have been turned over to the present Board of Finance and their number has been reduced. Even in the early days the regular customs duty was not an important branch of revenue, and the present tendency is toward a further decline. According to the record of Ta Tsing Hui Tien, or Institutes of the Tsing Dynasty, revised in 1821 in the 25th year of the Emperor Kia Chin, the annual revenue from these interior customs amounted to about Tls. 4,500,000. But the Board of Revenue has recently reported that before the opening of foreign commerce, this revenue was only Tls. 3,610,000.

Since the opening of the treaty ports where the new maritime customs were established, the income of the old customs along the sea coast has been greatly reduced. For instance, the old customs at Tientsin formerly yielded annually between Tls. 40,000 and Tls. 60,000; in 1895 it dropped to Tls. 12,880. The income from the same source in the Chekiang province used to be above Tls. 79,000; in 1895, however, it amounted to only Tls. 40,000. The collection in Shanghai in the same year was only 33,893 taels, and at Canton only about Tls. 1,000,000. The customs in the other parts of the country have shared the same fate. Smuggling and corruption were said to have existed very extensively, but even in the second year (1904) after the new arrangement under the Maritime Customs the total collection was only 3,389,200 taels. It is expected that

the revenue may be able to increase in future to Tls. 10,000,000.¹

General considerations: abolition. In former times the Chinese Government never endeavored to tax merchants to any considerable amount. The income from the Native Customs was exceedingly small—so small that it was absurd in comparison to the immense amount of inland trade. It is obvious that the persons chiefly benefited by the duties were the customs-house officers. These officers were usually chosen by the Emperor from among those who had served in the imperial household, or with the Tartar general of the garrison. The intolerable delays and difficulties which this system entails on trade are even greater than in the case of the *likin*. If the *likin* is to be abolished, there is no reason for the retention of Native Customs. Furthermore, while it is true that transit and produce taxes were formerly found in Europe, the former have now almost entirely been abolished and the latter are applied only to liquor, tobacco and other luxuries. Although the *likin* and the Regular Customs are therefore a necessary evil in China, the sooner they are abolished, the better it will be.

7. ADMINISTRATION

The Administration under the Manchu regime. Every regular customs together with its branches, was placed under an official, called Kien-Tuh or the superintendent of customs. The superintendent might be,

(A) An Imperial High Commissioner of Customs, as the superintendent of the Chung-wen Gate, that of the Left-Wing, or that of the Right-Wing: all of them are in Peking.

¹ This applies, however, only to the native customs under the control of the maritime customs only. The native customs receipts in the whole country in 1914, since the reorganization, have amounted to some \$20,000,000, but they have been greatly affected by the outbreak of the European war.

(B) A Tartar or Manchu general, as the superintendent of the Foochow customs.

(C) An Imperial Commissioner of Silk-manufactures, as the superintendent of the Si-sin customs (Nanking), of the Wu-süe customs (Chinkiang), or of the Pei-sin customs (Hangchow).

(D) A Commissioner of Customs, appointed by the Emperor upon the nomination of the Department of Revenue, as the superintendent of the Hwai-an customs (Kiangsu), of the Canton customs, of the Tientsin customs, of the Chau-liang-ting customs (Tungchow, chihli), of the Chang-kia-kow customs (Kalgan, or of the Sha-fukow customs, a boundary town between Shan-si and Mongolia).

(E) A Circuit Governor (or lower local authority), as the superintendent of all the customs, except those previously mentioned, and the Pei-hai Customs, at a port on the Canton river (under the superintendent of the Canton customs).

The functions of the superintendents were (1) to collect the duties on general or specific merchandise; (2) to keep the records of the merchandise and the collection accounts; (3) to deliver the amounts collected to the Board of Revenue within a certain period; (4) to prohibit the trade of certain contraband goods like salt, opium and munitions of war; (5) to issue licenses to junks trading along the sea coast or with foreign countries, and to cancel the same upon the return of the junks; (6) to restrict the exportation of rice, raw silk, satin and cast iron necessary for home use; and (7) to prevent any unlawful acts of the inspectors or watchmen.

Regular customs turned over to the Department of Maritime Customs. According to the treaty of 1901, all the regular customs within a fifty-li zone around any maritime

customs was to be controlled by the respective inspectors thereof, as the former customs were now hypothecated to redeem the indemnity and the foreign loans. As a matter of fact, however, as the different native customs have fulfilled their imposed obligations without failure, the inspectors have never controlled all the native customs within the zone. But the Revolution of 1911 caused a deficit in the native customs and the maritime customs officers began practically to control these customs, not only within but also without the fifty-li zone. These maritime customs are fourteen in number, namely, Shanghai, Chefoo, Foochow, Tientsin, Ningpo, Wenchow, Canton, Swatow, Kiungchow, Newchwang, Pakhoi, Wuhu, Amoy and Shasi customs. There are six other maritime customs which control only the native customs within the zone. These are the Kiukiang, Wuchow, Ichang, Kongmoon, Santuao, and Kiaochow customs.

Accordingly native customs are now of three kinds — (1) the inland customs; (2) the customs situated without a radius of fifty li (about sixteen miles) of each maritime customs along the rivers and sea coasts; and (3) the customs under the supervision of the maritime customs department, that is, those within fifty li of river or coast treaty ports, controlled by the maritime customs.

The reorganization. During the Revolution in 1911, most of the regular customs were under the control of different provinces and the collection of revenue was necessarily interrupted by the chaotic conditions. Again, the rebellion in 1913 caused a further postponement of the work of reorganization. As soon as the military campaign was over, the Central Government took possession of both the inland customs and those along the coast as well as the special collecting offices. To govern them superintendents have been sent out directly by the Board of Finance. Four methods have been used to reform the collection of duties.

(1) *The adjustment of rates of collection.* Since the time of the Emperor of Yung-ching and Kien-lung (at the end of the eighteenth century) the old rates have remained without any modification. It seems absurd to continue to follow these rates of taxation, which have become impracticable today. With a view to unifying the rates of collection in the different customs, it was decided to follow the half-rate rule adopted by the maritime customs, e. g., to collect $2\frac{1}{2}$ per cent *ad valorem*.

(2) *The suppression of all malpractices.* Under the Manchu regime customs authorities were allowed to appropriate any sum of money for their own use on the mere pretext that it was to be set aside for the making-up of the depreciation and loss on the exchange of different kinds of taels as well as for fees and allowances for the employees. This frequently led to unjustifiable practices. Measures are now being introduced to put an end to such irregularities.

(3) *The adoption of proper customs receipts.* In former times it was impossible to ascertain whether there were any leakages in the amounts collected. The different methods of preparing and issuing receipts in the various customs made inspection difficult. Now the receipts must be made in quadruplicate copies. They are marked A, B, C, and D. The A copy must be deposited in the branch office from which it comes, the B copy in the general office, and the C and D copies remain for a time in the hands of merchants, who present the last copy to the next station. This is then sent up to the general office for inspection. The strict enforcement of this rule makes corrupt practice almost impossible.

(4) *The requirement of customs returns.* The Manchu Government required every customs station to return only a fixed amount as a minimum. Now every customs must remit under strict orders an additional sum of thirty per

cent over and above the maximum amount collected in the previous year. Regulations of penalties and rewards have been passed to insure the good behavior of the customs officials. The result of these reforms is that during the eleven months of the third fiscal year there has been collected \$5,535,348, that is, an increase of \$562,102 over the collection in the second fiscal year, (\$4,972,246).

All these measures, however, are only temporary pending the hoped-for increase of the customs tariff and the abolition of the *likin*. When these are accomplished, the result ought to be the total abolition of all taxes on transit and on general produce.

CHAPTER VIII

WHAT SHOULD BE CHINA'S COMMERCIAL POLICY

I. CONSIDERATIONS IN FAVOR OF PROTECTION

Arguments with special reference to conditions in China. The real economic policy of China, ought to be directed toward an increase of national wealth and an approach to industrial independence. In order to realize such aims much can be said in favor of protection. In the first place China is in a transitional period from a local to a national economy, the entire government as well as the tax system being still lacking in uniformity and efficiency. Anything which can arouse the national spirit and secure national unity is much to be desired. A protective tariff can result in a long step in that direction. Secondly there are many young industries in China which must overcome the handicap of high cost and other difficulties in the beginning. This alone would be a sufficient ground for the adoption of a protective tariff, as is generally admitted by most economists. Thirdly, China is a old country full of traditions; the failure to start many new industries is due to the inertia of the people. According to Prof. Taussig, this is a condition that requires protection.¹ Fourthly, on the other hand, in China as a new country in which few modern industries have been developed, foreign competition is so severe that it kills the growth of any native industry. Under such conditions even John Stuart Mill justifies a protective tariff.² Fifthly, China's uniform five per cent tariff

¹ F. W. Taussig, *Tariff History of the United States*, p. 5.

² J. S. Mill, *Principles of Political Economy*, bk. v, ch. x, sec. 1.

has so little effect that China is practically a free trade country, and this policy seems to have been detrimental to her industries. Finally, it must be remembered that for a century or so most of the advanced countries have been protecting their own industries by high tariff walls. How then is a development of young industries in a new country like China possible without protection? The arguments would therefore all seem to point to a protective policy for China.

The arguments mentioned above for tariff protection, however, are more specious than real. For, the wise policy for China at present is not to adjust her political and social conditions to the industrial system, but to adjust her industrial development to the changing political and social conditions. The former is retrogression: the latter, progress. All growth spells pain; all progress involves cost. Temporary sacrifices must be made in order to secure ultimate expansion. In China the industrial revolution has come together with the political and the social revolutions. The industrial revolution in China, however, is different from that of the West. The main factor in the industrial revolution in the West has been the change in the methods of production, while in China the conspicuous feature of the revolution is the change in the nature of consumption. To facilitate this revolution in China therefore, the policy of free trade rather than that of restriction will in the long run prove most advantageous to the nation at large. There are consequently several erroneous ideas in connection with the agitation of mere tariff protection in China.

The arguments for protection are one-sided. Those who advocate tariff protection in China have neglected the following points: In the first place, inasmuch as the protective tariff operates at the expense of consumers, the restrictive policy merely tends to retard industries. The destructive

effect of the Spanish tariff in the last century on the general prosperity of that country is well-known. For the protective policy checks imports and raises their price. This loss to the nation can not be compensated by the increase of governmental revenue.

In the second place, the secret of the industrial activities of a people lies in their wants and desires. With the complacent contentedness of primitive people, modern civilization can never be attained. The industrial revolution in China is bound to create new wants and to change the standard of living. In so far as these modern improvements cheapen the necessities of life and add to the simple comforts, they will do nothing but good. The stimulus created by the new desires will cause new activities among the people. Under such circumstances, the Government ought to encourage foreign imports so as to rouse in the people new desires; and at the same time the government should strive to supervise and foster the infant industries at home in order ultimately to secure economic independence.

In the third place, for the starting of new industries in China, general knowledge, scientific experimentation, and the introduction of foreign skilled-labor, foreign experts and foreign capital are far more important than the adoption of tariff protection, or any other restrictive method. In the fourth place, what China most needs is in the direction of facilitation rather than restriction. Under the present backward conditions of transportation and communication, the deplorable system of internal taxation, the complicated methods of exchange and currency, and the lack of banking facilities, no considerable development of industry and commerce is possible. In the presence of those obstacles, a prohibitive policy will simply make things go from bad to worse. Even after the removal of

these obstacles the government will be advised in going slowly with the adoption of any sweeping policy of protection in the near future.

In the fifth place, the development of new industries in China depends to a large extent on her agricultural products. But protection is not needed by agriculture for the reason that this industry is affected far more by the physical factors of soil and climate than by acquired skill. With a rich soil and the varieties of raw produce indigenous to China, agricultural protection would be out of place. In other words, the protective policy as a whole should not be the goal of any far-sighted statesman in China, even though governmental encouragement and proper supervision is sadly needed in particular instances.

2. THE TARIFF POLICY OF JAPAN

The absence of protection in Japan. The industrial conditions of China are more like those of Japan several years ago than of any advanced nation. Consequently, much may be learned as regards the economic policy from the experience of Japan. At the beginning Japan was subject to tariff stipulation similar to those in China. Accordingly no protective policy was possible. But Japanese industry and commerce have developed rapidly, despite any deliberate tariff legislation on the part of government. The principal measures adopted by the Japanese government were education in the wide sense, governmental initiative of new industries, the use of subsidies and other means of encouragement and so forth. For instance, officials and students were sent abroad to travel and to study the social and industrial institutions of the more advanced countries. Schools of mechanical engineering and of agriculture were established. Factories were supervised by the government. Subsidies were given to the shipping and other industries. The obstacles in the way of transportation, of currency, and

of banking were removed and the facilities were extended. In other words the Government did everything it could to encourage and to foster home industries, except through a protective tariff.

As a result of these policies, Japanese industry has been undergoing a very remarkable transition consisting not only of a complete modification of its nature but also of a great acceleration in its development. At present not only have many foreign manufactures been completely driven from the Japanese market, but in certain lines Japan has already entered into active competition with foreign countries in neutral markets. With this success, the Japanese tariff has had nothing to do. On the contrary,¹ it has been asserted that during her period of transition, when Japan was seeking new ideas from Western civilization,² "nothing would have been more harmful to the country than a policy of protectionism. On the other hand, the pressure of foreign competition operated as a stimulus to the rapid modification of Japan's industries and laid the foundation for the later growth of her foreign trade." Of course, there were countless business failures due to the foreign competition. But it was only out of the ruin of the old things that new industries could spring up.

Protectionists in Japan. It is no wonder that the influence of the Western theories of protectionism should have reached Japan. There were many Japanese economic writers who complained of the "damage" done by their conventional tariff in the last century and who wanted their government to take advantage of the present treaties, which gave them

¹ See an article, "Industrial Revolution of Japan," by Count Okuma, *North American Review*, vol. clxxi, 1900, pp. 677 et seq. Also Y. Kinoshita, *The Past and Present of Japanese Commerce*, in the *Columbia Series*, vol. lix, no. 2.

² Yukimasa Hattori, *The Foreign Commerce of Japan since the Restoration*, p. 15.

something like a statutory tariff in order to introduce protective measures. But the Japanese government has been wise enough not to accept these narrow views. It was later on, and due to the pressing necessity of increasing revenues during and after the Russo-Japanese War, that the government resorted to the expedient of raising the statutory tariff from time to time. That there is still no protective principle in the Japanese tariff laws is shown by the fact that she taxes her agricultural imports or raw materials much higher than the manufactured imports. Despite such an absurd tariff policy the prosperity of the country is growing. Of course there have been protectionists in Japan who maintain that the growth of their industries does not come up to their expectations, chiefly because of the absence of protection. But the Japanese Government holds the view that since the exports and imports of Japan have doubled, more or less, every ten years since 1868, the development justifies her free-trade policy. The chief explanation of the existing industrial defects is ¹ "that Japan is still in great need of men of trained intellect and practical experience, not that she is in need of protection."

3. THE PROTECTIONIST TARIFF IN THE UNITED STATES

Motives and results of high protection in the United States. The protective policy in the United States is justified for the following reasons. (1) The country is rich and self-supporting. The high wages and prices so far as they are a result of the protective tariff can therefore have no serious effect on the general public. (2) This is a new country inhabited by an old people, that is by people whose customs, habits, desires, knowledge, skill and experience are not different from those in Europe. (3) The Ameri-

¹ Count Okuma, *Industrial Revolution in Japan*.

can Government and people, as adherents to the Monroe Doctrine, have been chiefly occupied with the development of the internal resources of this continent. Moreover, the growth of the American protective policy has not been altogether for economic reasons. Many of the arguments in favor of protection have been purely political. In addition, revenue has been an important consideration in the high tariffs of later years. The high tariff did not begin until during and after the Civil War on account of revenue necessities; before then, the Government policy had been more or less *laissez-faire*. At present needless and inoperative duties are imposed on a number of things which would not be imported even in the absence of protection.¹

The result of a continuous policy of protection has become such as to check the "willingness to meet foreigners on equal terms" and to create "a feeling of a suspicion and dislike against foreign supply at any time and under any conditions."² But in the United States industrial efficiency has been so advanced that it cannot be affected by these results of protective tariff. Should such condition of affairs exist in an undeveloped country like China at present, however, it might be detrimental to her, since it might cause further stagnation of production.

The effect of the tariff on American industries doubtful. It is true that in the United States the march of technical improvements and industrial prosperity has been extraordinarily rapid under the highly protective system. It is also true that protection must have somewhat stimulated some of the industrial activities in the beginning. But, even in this country, where a high tariff is far more justified than in China, the part which protection has played in the progress is doubtful.

¹ Taussig, *Some Aspects of the Tariff Question*, p. 29.

² *Ibid.*, p. 23.

In fact many Americans think that there might have been about the same general prosperity without protection. For instance, Professor Taussig, in "Some Aspects of the Tariff Question," has drawn interesting conclusions from comprehensive studies on a number of the most important industries in the United States. In the case of beet sugar (Part III, Chap. VII) his opinion is that its improvement has come "not from high prices and easy gains, but low prices and the need of facing a difficult situation." This has been true not only in the case of the Louisiana sugar planters, but also in that of the Hawaiian planters during the period of free sugar (1860-94). Professor Taussig also maintains that tariff protection is even "a less promising device" for the promotion of agricultural products. "Education, experimental stations, diffusion of the right sort of information, are much more promising."

Even the growth of the iron and steel industries is said to be not due to protection (Part III, Chap. X). According to the same author, it would probably have grown as fast and gone as far without protection. For instance the chief factor that caused the development of the great iron ore deposits of Lake Superior was improved transportation which made rich natural resources available to the enterprising promoters. And "the protection system can claim no credit for this result—which is due to the general enterprise of the people—the exploitation of the great western country." All those factors—rich natural resources, business skill, improvements in transportation, widespread training in applied sciences, abundance and manageable labor supply—are perhaps sufficient to account for the general progress, and all these can exist without tariff protection. It is of course beyond doubt that in the iron and steel establishments in the central districts the protective system has caused high profits and the stimulus from those gains has

promoted the unhesitating investments of capital on a large scale. But it is also without doubt that all this growth would have taken place in any case—protection or non-protection.

In the case of copper, it is still more clear that the tariff had nothing to do with it. The copper mines, of which the renowned Calumet & Hecla mine was typical, began almost at once to turn out great quantities of the metal. They had started and prospered before the application of protection (Chap. XI).

In the case of silk manufactures (Chap. XIV), those parts of the industry which have received the most expansion indeed owe their rise to tariff. But even there before the régime of high duties, cotton and woolen fabrics were already made on a large scale. The prosperity of the cotton manufactures (p. 295) is not at all fostered by tariff protection. In the case of the woolen manufacture, finally, (p. 354 *et seq.*), the high tariff rate even tends to hamper the industry. "The qualities of wool are extraordinarily diverse; the particular way in which the duty was so long levied served to prohibit many grades, and to hamper the use of others. Probably there was some effect in keeping the manufacture in routine grooves, even in a rut."

The final conclusion which Professor Taussig gives, as a result of his study of the development of industries in this country for more than half a century, is that the comparative advantage or adaptability to the conditions of a country is decidedly more important than tariff protection.¹

¹ That the American trust is a child of the high tariff is also fallacious. Of the twenty-five or more main trusts which exist in the United States, the great majority do not depend upon the tariff. The woolen trust may depend upon protection. The effect of the tariff upon the steel trust is doubtful, while pig iron and iron ore are already on the free list and the sugar business has no longer any dependence on the high duties of tariff. Indeed the influence of a high tariff on the great majority of trusts is negligible.

4. WHAT SHOULD BE CHINA'S POLICY

Practicable suggestions. In some respects, China resembles Japan; in others, the United States. But on the whole she is different from either country. China is like Japan of several years ago in the undeveloped state, stagnant condition and low standard of skill, of wants, and therefore of activity among the people. If Japan has been able to extricate herself from those conditions in so short a period without tariff protection, why should not China do the same, especially as she is in a comparatively advantageous position on account of her size, her rich resources in natural and mineral products, and her numerous population?

China is similar to the United States in the latter respects. If the development of industries in the United States is due not to the tariff but to the rich soil and mineral resources, the numerous and enterprising people and the immense area of the country, the protective policy for China should be unnecessary. In fact it seems even to be unreasonable as she needs foreign help to remove the general stagnation, and as her domestic producers require foreign competition to quicken their activities. If these considerations are correct, China's policy should be directed to the following objects:

1. *The restoration of the tariff right.* It is an unfortunate incident that all tariff stipulations in China governing not only imports but exports have been inserted in the treaties. The evil results of such conventional tariffs have been sufficiently discussed in the previous chapters. Before or after the restoration of that right, however, China should refrain from trying to adopt any general protective policy, although the duties should be somewhat increased mainly for revenue purposes, and the uniform tariff schedule should be modified in accordance with the nature and the quality of goods.

II. *The removal of every obstacle to industry and commerce.* China is a country of vast potential, though not realized wealth. She has a most fertile soil, immense mineral resources, a benign climate and a hard-working and frugal population. By striking off all existing fetters, that is, by opening roads and especially railroads, reforming the currency, and preserving and deepening the waterways, there is no reason why China can not become a prosperous country. Above all the entire fiscal system, including the relation between the central and provincial governments, the collection and incidence of taxation and so on, must be thoroughly reorganized before there can be real progress.

III. *The government and supervision of new industries.* Young industries can hardly make a good or rapid start without governmental support. In the absence of government supervision, even some of the old staple industries have deteriorated through the ignorance of the people. Hence, in the first place, the government must introduce the scientific culture of tea, cotton, silk and so on and prohibit adulteration and other malpractices, which have been one of the causes of the decrease in their trade. In the second place, it must spread technical information, open schools for mechanical education and encourage inventions of different sorts so that the people will gradually be able to initiate the new lines of industry. And in the third place, the government must take an actual part in fostering some of the more important industries. According to a well-experienced and highly learned English writer, A. J. Moore-Bennett,¹ "Of the seventy-three million pounds worth of manufactured goods imported in 1912, China could . . . manufacture at least fifty per cent of the goods she now im-

¹ An article on "The Industrial Opportunities of China," by Arthur J. Moore-Bennett, C. E., F. R. G. S., reprinted by *The National Review*, Shanghai, Feb. 20, *et seq.*, 1915.

ports cheaper than any other country in the world." But the development of many of those industries depends upon the whole-hearted support of the government and the enactment of laws encouraging the introduction of foreign capital and experts.

IV. *Special favors for particular industries.* If an infant industry is in any case to be established, the bounty seems preferable to protection. A bounty differs from protection in several respects. (1) While the tariff tends to raise the price of the favored goods, the government subsidy lowers it. (2) The bounty does not tax the foreign competition, but enables the domestic producer to meet it. (3) In the case of a bounty, the burden falls upon the taxpayers as such rather than upon consumers. This distinction between the two systems will be of great importance in China as the standard of living is so low and the poverty of the country so great.

V. *The adoption of a progressive and far-sighted policy.* This is the chief need in China. It was thought in the beginning that foreign trade was only a benefit to foreigners, although, unhappily, and partly due to the narrow policies of the officials, the trade has certainly not proved a benefit to the country. The government must tear down the old systems which check the development and must sacrifice temporary gains for the sake of ultimate prosperity. Export duties should be reduced and abandoned as far as possible. The importation of foreign capital and skill must at all cost be encouraged. The foreigners in China must also be induced to give up their special privileges so as to remove the existing evils, to render possible industrial development in China and finally to increase the purchasing power of the Chinese people. For a trade that depends for its profits on the inability of a people to develop their own resources can not be counted upon as stable and permanent.

CHAPTER IX

THE DEVELOPMENT OF THE CUSTOMS ADMINISTRATION

THE EARLY CUSTOMS ADMINISTRATION BEFORE THE ESTABLISHMENT OF THE FOREIGN INSPECTORATE, 1854

The early administration before the Treaty of Nanking, 1842. The twenty-eighth year of Kan-hsi (1690) marks the beginning of the foreign coast trade. Four custom houses were then established at Ningpo, Shanghai, Foo-chow and Canton, and at each of them there was a superintendent of taotai who was directly appointed either by the central government or by the provincial governors controlling the customs under their jurisdiction. As pointed out elsewhere, each provincial government, under the old decentralized system prevailing in China, had to raise its own revenue and to meet its own expenditure. The customs superintendent had to supply two fixed sums—one for the imperial, the other for the provincial exchequer. But when these requirements had been met, he was under no obligation to account for the remainder of his collection.

The revenue thus suffered considerably as the system gave room to much speculation and individual emoluments, within the lawful limitation of the tariff. The condition was still worse when the factory system prevailed and the entire customs were farmed out to the Hong merchants. The latter introduced many irregularities in taxation and created illegal practices by levying additional duties on the foreigner. This resulted in the corruption of the customs

service and in many inconveniences to the foreign merchant. The British government protested in vain until the year 1840 when the Opium war broke out and resulted in the Nanking Treaty.

After the Nanking Treaty, 1842-1854. The Treaty of Nanking brought about two fundamental changes in the customs administration, namely, direct relations between the customs and the foreigner and foreign interference with the customs. Hitherto the foreign merchants had had no direct dealings with the customs officials except for the payment of measurement fees on their ships. The charges on goods were paid by the Hong merchants who in turn passed the burden on to the foreigner. The Nanking Treaty provided for no machinery for any change in the tariff collection, but abolished the Co-hong system and therefore brought the foreigner into direct relations with the customs.

In the treaties the foreigner was now protected at every step. For instance, he might through his consul address complaints to the Chinese authorities—a right formerly denied to him.¹ Customs officers might be stationed on board a ship, but could not exact either money or food. A ship's papers and a full manifest of her inward cargo must be deposited at the consulate. The consul might intervene in disputes arising from the examination of goods or their valuation, etc.

Foreign supervision of the customs. In 1842, the Nanking Treaty was concluded and five ports were re-opened. An indemnity of Tls. 21,000,000 was exacted by Great Britain, on the security of the customs. As a result, the

¹ All these provisions are found in the British Treaty, Nanking, 1842, and Bogue, 1843; American Treaty, Wanghia, 1844; French Treaty, Whampoa, 1844; and General Regulation, 1843.

British government appointed commercial superintendents and consuls in each of those five ports in order to control the customs. This marks the beginning of the foreign interference with customs administration in China. For a time this precedent, established by Great Britain, was followed by the consuls of other countries in collecting the import duty on goods of their own nationals and transferring the revenue thus collected to China. This system, on the one hand, removed the old irregular taxes levied by the Hong merchants, but, on the other hand, created new evils, as the consuls did not refrain from giving special favors to their own nationals, especially when they were themselves engaged in trade.

Later, owing to the resulting frauds and to the lack of uniform action on the part of the American and French consuls, the British government withdrew from the Chinese customs,¹ and the Chinese government began to collect the revenue itself. But the foreigners did not show any confidence in the Chinese officials and in 1853, when the Taiping Rebellion prevailed in South China, the custom-houses of the empire were closed. The British and American consuls at Shanghai were requested to collect a five per cent duty and hand it over to the Taotai who then lived in the foreign settlement. Shortly afterwards, the Taotai was ordered to collect the customs himself. On his failure to cope with the new situation, the Peking government was obliged to accept the request of the foreign consuls, and the customs was once more placed under their protection.

Before long an arrangement was made between the Taotai and the consuls of Great Britain, the United

¹ See the despatch from Lord Palmerston to Sir George Bonham on May 30th, 1851.

States, and France, whereby the latter were to appoint three representatives from their respective nationals for the management of the customs at Shanghai. A year later, in 1854, Mr. Lay (British) was appointed Inspector-General of the Customs. This system was rapidly extended to the whole country and thus was introduced the inspectorate which is still in existence. The chief reasons for the failure of the early Chinese customs administration, therefore, are the difficulty of dealing with an entirely new situation and the fact that most of the Taotais who were responsible for the customs administration had other and more important functions to attend to in the locality.

2. A BRIEF HISTORY OF THE INSPECTORATE

The beginning of its organization. The agreement in 1854 between the Shanghai Taotai, Wu Kien-chang, and the three consuls mentioned above resulted in the nomination of a board of three foreign inspectors: British, Captain (Sir) Thomas Wade; American, L. Carr, and French, Arthur Smith. It was, however, Captain Wade alone who took up the chief work of organizing the new office. On his resignation a year later, his place was filled by Mr. H. N. Lay.

The board of three continued, but the actual control was vested in the British inspector. Under his authority custom-houses were opened in seven ports. On his resignation in 1863, Mr. (Sir) Robert Hart was appointed Inspector-General. He found himself at the head of a customs staff of about two hundred persons, responsible for the collection of a revenue of a little over Tls. 8,000,000 per annum at fourteen ports. Although not the founder of the Chinese customs, Sir Robert Hart is the man to whom the later successful administration is chiefly due, during a tenure of office which lasted about half a cen-

ture. The difficult situation which he had to face in the first decade of the new customs service has been described in a monograph prepared by him for the then British minister and published in the British Parliamentary Papers and Accounts in 1865.

Difficulties entailed by the new and peculiar situation. As has been observed: ¹

In its origin, and in respect of the objects it chiefly contemplated, the Inspectorate partook of the nature of a foreign, rather than of a native, establishment. It was, in short, a foreign governmental measure, and did not originate with Chinese authorities. . . . Soon, however, . . . the office gradually separated from its original founders, and became more and more a Chinese institution. It took a new point of departure, when, in its working, it began to make itself more prominent as an establishment for the collection of Chinese revenue. . . .

Besides, the Inspector-General and the other foreign officers employed in the customs were responsible no longer to the foreign consul, but to the Chinese government. At first, the Inspector-General held his appointment from the governor general of the Two-Kiang, who was the imperial commissioner for foreign affairs. Later he was appointed directly by the Tsung-li Yamen—the then Foreign Office in China, with which he corresponded and through which he forwarded his reports to the Board of Revenue.

Under such a new situation, no matter how simple its rules and practices had been in the beginning, it at once clashed with the interests of both the Chinese officials and of the foreign merchants. The strange thing was that the foreigner protested even more strongly against the new system than

¹ Sir F. Bruce to Earl Russell, April, 1865.

the native. So far as the Chinese were concerned, while the minor officials whose positions were abolished by the new arrangement showed some resistance, the high authorities rendered every help in the establishment of new custom-houses in different localities. The most serious objection, however, arose from those foreign residents who had gladly availed themselves of the absence of such an institution to take every advantage of the helplessness of the Chinese officials and of the disorder of the times. They chafed at the additional trouble, to say nothing of the increased payment entailed by the new system. "The inconvenience was aggravated, too, by the inevitable employment, at first, of inexperienced foreigners who had an imperfect conception of their duties, and failed in the discretion as well as in the tact which were needed to facilitate the working of a new system." One of their arguments against the operation of the new customs rules was the stricter control applied to one only (Shanghai) of the ports open to foreign trade. But with the extension of the system to all the ports and with the steady improvement in the administration, the latter objection gradually died out.

The success and expansion of the customs administration. For the period of forty-five years (1863-1908), Sir R. Hart held the position of Inspector-General in China. It was due chiefly to him that a new machinery was created out of the ruins of old institutions. Special honors were time and again bestowed upon him by the government in recognition of his services. Under his régime the customs revenue increased from about Tls. 8,000,000 to upwards of Tls. 35,000,000 per annum. In the beginning of his administration there were only fourteen customs, at the close the number had increased to forty-one. After 1901, more than twenty of the old customs also were under his control. In 1875, the customs employed 424 foreigners and

1,417 Chinese. In 1907, the number of foreign employees had increased to 1,387, and that of Chinese to 12,389. They were charged with the work of collecting the revenue, coasting and harbor duties; they were responsible for the lighting and buoying of the coast, and controlled even the postal service of the empire. Sir R. Hart left his post in April, 1908, and died in London in September, 1911. His successor is Mr. F. Nelson Aglen, formerly commissioner at Hankau.

3. MARKED FEATURES OF SIR ROBERT HART'S ADMINISTRATION

The preponderance of foreign influence in the service. This is the most conspicuous feature of the customs service in China. So far as the number of employees in the service is concerned, the Chinese exceed the foreigners in number. But the natives have, until of late, been prevented from holding any important position, even that of a "full assistant". Almost all of them were employed as servants for work of the lowest grade. All the customs reports and other documents were until recently published in English only. The foreign employees refused to learn Chinese on the ground that their promotion as stipulated was not based upon knowledge of the language. The employment of foreigners has been extended to no less than seventeen nationalities. Their distribution seems to have been proportional either to the amount of commerce of their countries in China or to their military and naval power at home.¹

¹ For instance, in 1911 the British trade (including Hongkong and Indian trade) in China amounted to 40 per cent of the total foreign trade; the Japanese, 15 per cent; while the German and French took only 10 per cent each. Yet there were (in the report for 1907) 142 German and 55 French employees in the indoor staff of the Chinese customs service compared with 635 British and 50 Japanese; and so on down.

Under such conditions, there had been no serious objection on the part of the government until February, 1902, when the Viceroys Liu Kun-yi and Chang Chih-tung gave voice to Chinese grievances against the power of the foreign Inspector-General, who had begun to control even the finances in the interior. In 1906, after the abolition of the old system of imperial examination, the vernacular papers began to urge their young educated " patriots " to prepare to enter the customs service, as the requirements there were simply geography, universal history, and English; while the chief means of rapid promotion for foreigners, the knowledge of Chinese, was their native tongue. Indeed it has often been said by foreign observers that the foreign customs establishment teaches a moral lesson to Chinese officials and that its efficiency should be learned by the Chinese and adopted in the other departments of the government. The year after he had taken over the charge of the inspectorate, even Hart himself wrote to the British government, " It will have finished its work when it shall have produced a native administration, as honest and as efficient, to replace it ".

It is, however, unfortunate that until a few years no attempt has been made to educate the Chinese for the service, as they have been denied positions of any importance. On the contrary, many a Chinese first-class scholar was not accepted, on the pretext that his prospects were poor. As a result of such discrimination against Chinese scholars, the standard of the Chinese employees in the office has been greatly lowered. The chief argument against the employment of Chinese was the old practice of speculation among the official class. But the evil was caused mainly by the insufficient salaries under the old régime. Since the payment for customs officers has been so liberal and even generous, there is no reason why this evil can not be eradi-

cated.¹ Since 1906, this one-sided policy of the inspectorate has been somewhat changed by the establishment of the Shui-wu Chu or the Revenue Council under the Board of Finance.

The customs administration highly centralized. This is the second important feature of Sir R. Hart's administration. Under the Manchu régime, among the revenue departments, the maritime customs was the only centralized institution. The revenue of the central government used to be collected through provincial authorities. In this respect alone, therefore, the so-called "new customs" has marked a great revolution in the control of public finance in China. But the system as a whole has its disadvantages as well as its advantages. On the one hand, it has served to show the efficiency of a strictly centralized machinery as against the system of decentralization and laxity which formerly prevailed in the country. However, it has

¹ The salaries of the customs officials in 1906 were as follows:

Inspector-General	Hk. Tls.	24,000
Deputy Inspector-General	" "	18,000
Commissioners	From " "	9,200
	to " "	15,000
Deputy Commissioners	From " "	7,500
	to " "	8,400
Assistant I A	" "	6,000
" I B	" "	5,400
" II A	" "	4,800
" II B	" "	4,200
" III A	" "	3,600
" III B	" "	3,000
" IV A	" "	2,400
" IV B	From " "	1,200
	to " "	1,800

Thus at that time the salary of the Inspector-General and the Deputy Inspector-General exceeded that of the Viceroy and Governor, while the salary of the Commissioners and Deputy Commissioners exceeded that of the Provincial Treasurer and Judge. Even the pay of the Assistants was much more than that of Toatai and Prefect.

given rise to nepotism and to unreasonable discrimination which have been so often criticised by men both inside and outside of the service. It has become the theory as well as the practice that every man in the customs is the servant not of the Chinese government but of the Inspector-General, liable to dismissal at three months' notice. Among the employees merit was not necessarily the stepping-stone to promotion. Even the discrimination against the high-class Chinese was not questioned by the Chinese government until after a great public agitation. These defects probably were a result not of the centralized system itself but of the initiation of a centralized system in an entirely decentralized country.

4. THE ESTABLISHMENT OF THE SHUI-WU CHU OR REVENUE COUNCIL

Its development and functions. The principal object of the creation ¹ of the Shui-wu Chu has been to supervise and to centralize the control of all the revenue departments including the maritime customs.² For instance, without its establishment the compilation of anything like an accurate

¹ The Shui-wu Chu was established by the Imperial Edict in May, 1906.

² The Shui-wu Chu has four departments which deal respectively with:

(a) Control of the maritime customs revenues on machinery and other manufactured goods and metals, customs regulations, and the transmission of funds to legations abroad.

(b) The native customs, inspection of duty-free goods, collection of taxes upon salt, the revision of tariff and the prevention of smuggling.

(c) Collection of duties upon native and foreign opium, inspection of inland steam navigation, supervision of harbor masters, lighthouses and buoys, and the study of foreign affairs.

(d) Postal service, appointment and rewards of commissioners, the keeping of records of all customs officials, Chinese or foreign, and also the auditing of the expenses and income of the customs.

budget, on the lines which have become familiar in the past seven years, would have been impossible. But the Shui-wu Chu was founded amid much foreign misunderstanding and contention as to the risk to holders of indemnity bonds¹ involved in the change and as to the possible violation of the agreement² of 1899 with Great Britain. Up to that time the control of the maritime customs had been nominally in the hands of the Tsungli Yamen and the Wauwu Pu, successively. It was feared that the establishment of the new council might sever the customs from foreign administration and control. It was, however, asserted time and again by Prince Ching, then President of the Foreign Office, that the Chinese government had no intention of entrusting the direction of the maritime customs to an international board of control, and that the customs administration was to continue as it had been constituted during the currency of the loan, that is, until 1943.

As a result of these complications, the Shui-wu Chu has not taken any definite step toward the reorganization of the revenue system, though in the meantime it has become a valuable supervising, coördinating and centralizing office for all revenue departments. At the beginning of 1915 it has been given a more substantial status and definite organization under the present Director General, Mr. Liang Shih-yi.

What has been done concerning the supervision of the customs administration. Although the Shui-wu Chu has

¹ The entire customs income has been hypothecated for the Boxer indemnity and the subsequent loans since 1900.

² As the position of the Inspector-General has become an object of international jealousy, the British government secured the consent from the Chinese government in Feb., 1899, that so long as the British trade preponderates in China, the head of customs shall be a British subject.

not made much headway in accomplishing the supposed object of its creation, steps have been taken with a view to supervising the customs administration as follows:

I. *The use of Chinese in the Customs Gazette.* Hitherto English had been the only language found in the customs publications. Since November, 1906, by the order of the Waiwu Pu or Foreign Office, full texts of Chinese and English have been published in the customs report.

II. *The promotion of the Chinese employees in the service.* On February 8, 1907, a circular issued by Sir Robert Hart instructed all commissioners of customs to give Chinese employees a larger share in the work, both indoor and outdoor, hitherto limited to foreign members of the staff. A second circular was soon issued repeating and emphasizing these instructions. About the same time the Inspector-General was obliged to appoint Mr. Cheung Yuk-tong, a Chinese, acting commissioner of customs at Yantung customs at the Tibet frontier. In addition, four more selected Chinese were promoted to positions formerly held by Europeans. In 1911, it was found that among the grade of "assistants" formerly reserved for foreigners, there were nineteen Chinese, eight of whom became full assistants, while eleven belonged to the grade known as acting assistants, a new rank established in May, 1908. These and other similar promotions of the Chinese were due to the efforts of the Shui-wu Chu.

III. *The establishment of a Customs Training College in Peking.* A school for the training of the Chinese who sought admission into the maritime customs service had long been advocated but was actually founded only after the creation of the Shui-wu Chu. This institution was opened in August, 1908, with thirty-six students selected by competitive examination in Peking, Hankau, Shanghai, Foochow and Canton. The Chinese Director of the college

is Mr. Chan Lun, and the foreign director, Mr. C. H. Bre-witt-Taylor. Since then the number of students has been increased by some thirty-six annually. The members of the first graduating class received their diplomas on June 21, 1913, from Mr. Chou Hsueh-hsi, the Minister of Finance, and were sent to different customs in the country. Toward the end of 1914, thirteen more students were sent out by the Board of Finance for practice in the customs.

IV. *The classification of maritime customs.* The Ministry of Finance in June, 1914, classified the treaty ports into three groups. In the third group were those ports remitting to the government \$100,000 monthly; in the second group were ports remitting \$120,000 per month; and in the first group were those ports which remitted to Peking the monthly sum of \$160,000. The classification has no reason other than that of improved administration and grading of the personnel. But at the same time, the Director-General of the Shui-wu Chu was considering the suggestion that Chinese assistants in the customs should be eligible for promotion to the deputy-commissionerships. The great defect which it was now attempted to remedy was that the customs service has hitherto failed to attract the best Chinese because it offered no scope or career for the ambitious and capable men.

It can, therefore, be said that although the establishment of the Shui-wu Chu has not affected the internal administration of the customs (as well as that of any other department) in the least, yet it has made possible the proper supervision and greater centralization of control over the separate revenue departments of which the maritime customs is one.

CHAPTER X

THE ORGANIZATION OF THE MARITIME CUSTOMS

THE ORGANIZATION OF THE INSPECTORATE

1. *Powers and functions of the Inspector-General.* In 1861 Mr. H. N. Lay, the first Inspector-General of the Customs, was given absolute power as to the organization and control of the maritime customs service. The headquarters of the Inspectorate under his administration had been at Tientsin, Shanghai, Canton and Peking, respectively, but since 1864, when Sir R. Hart succeeded him, it was finally transferred to Peking where it has remained to the present day.

The powers and functions of the Inspector-General can be roughly classified under four categories: (1) his relationship to the Chinese government and his power of supervising and managing the whole customs service; (2) the appointment, promotion and removal of the customs officials; (3) the collection of revenue; and (4) the deposit and expenditure of the receipts. In the first place, the Inspector-General has been and still is, although more nominally than actually, controlled by the Chinese government. It is true that in all matters of procedure and regulation, or in the administration *ad rem*, he has always referred to the central government and in important questions perhaps has to consult the High Commissioners of Trade and the Viceroy at Tientsin and Nanking acting *ex officio, ad hoc*. It is also true that he has been at least nominally under the direction of the Tsung-li Yamen and later

(1901) of the Waiwu Pu and still later (1906) of the Shui-wu Chu. But it will be shown below that in almost all his functions he has been left entirely free as to the exercise of his own discretion.

At present he collects the revenue in all the ports as well as the *likin* and native customs within the fifteen-mile zone of each customs, governs forty-eight ports over a line more than 4,000 miles in extent, protects shipping by a fleet of gunboats and a splendid system of lights, regulates the coming and going of great freight carriers, issues monthly, quarterly, yearly and decennial yellow books of statistics and reports, and controls (in 1914) a staff of 1,448 foreigners and 6,148 Chinese in the entire service. In addition, in the years 1896-1910, he was also the Inspector-General of the Imperial Post Office. Sir Robert Hart used to represent the Chinese government even in the negotiation of tariff treaties between China and other countries. On more important diplomatic and other questions the Inspector-General has also time and again been consulted by the government. In short, the scope of the activities of the Inspectorate can be learned from the "Maritime Customs Publications" which are classified into statistical, special, miscellaneous and service series.

In the second place, the Inspector-General and Deputy Inspector-General are at the head of the commissioners in charge of each custom-house. The latter are again assisted by deputy commissioners and four grades of assistants, and so on. The appointment of a commissioner in charge of a port, or his transfer to another port has to be reported to the higher authorities; but apart from this the Inspector-General has discretion as to the appointment, promotion and removal of all placed under his orders.

In the third place, he collects not only import and export

duties, coast trade and transit dues, opium *likin*, and tonnage and harbor taxes, but also the *likin* and native customs within the fifteen-mile zone of each customs. And in the fourth place, as a result of the Revolution in 1911, all the customs receipts have been deposited in the foreign banks under the name of the Inspector-General. His signature or that of a duly authorized representative was the sole authority for disbursement. But this discretion was removed in January, 1914, when it was arranged that all maritime customs funds should be deposited in the Bank of China or its branches.

3. THE THREE DEPARTMENTS IN THE INSPECTORATE ¹

General statement. The customs service is now organized in three departments, the Inspector-General being the directing head of all.

I. Revenue Department.

1. Indoor staff, the executive, controlling and clerical branch.
2. Outdoor staff, the inspecting and preventive branch.
3. Coast staff, the preventive cruiser branch.

II. Marine Department.

1. Engineer's staff, for construction of lights, *etc.*
2. Harbors staff, for coast work in general and harbor work at Shanghai.
3. Lights staff, for operation of lights.

III. Works Department—organized in recent years.

¹ As the Chinese post-office grew up under the maritime customs, there was also a postal department in the inspectorate between March, 1896, and May, 1911. After the latter date the post-office was separated from the service and put under the Ministry of Posts and Communications. Several years ago there was also an "educational department" under the Inspector-General, who then directed the Tung Wen Kwan (College) at Peking and Canton respectively.

The growth of the service and its cosmopolitan character may be shown by the following comparison between the numbers in 1875 and 1914:

<i>Staff.</i>	<i>1875.</i>		<i>1914.</i>	
I. Revenue Department:	Foreign.	Chinese.	Foreign.	Chinese.
1. Indoor Staff (foreign)	126	....	319	40
2. Outdoor Staff (foreign) ..	203	....	876	....
3. Coast Staff	19	145	43	476
4. Chinese Clerical .....	....	282	....	1106
5. Chinese Non-clerical .....	....	802	....	3373
II. Marine Department:				
1. Engineers' Staff	9	....	11	....
2. Harbors Staff	14	....	30	....
3. Lights Staff	43	....	63	715
4. Chinese Employees .....	....	188	....	330
III. Works Department:				
1. Engineers' Staff .....	....	....	4	....
2. Office .....	....	....	3	....
3. Outdoors .....	....	....	8	....
4. Chinese .....	....	....	14	....
Total	1,841 ¹		7,411	

That is to say in the three departments in 1875 there were 424 foreign and 1,417 Chinese employees, the total being 1,841. While in 1914 the total was 7,411, in which there were 1,357 foreigners and 6,054 Chinese.

¹ In the total there is included ten foreigners employed in the then Educational Department which was afterwards abolished.

Nationality. ¹	1875.	1914.
American	46	69
Austrian	5	9
Belgian	4	8
British	265	884
Danish	9	59
Dutch	2	12
French	28	59
German	34	220
Greek	1	....
Hungarian	2	....
Italian	3	28
Japanese .....	....	103
Korean .....	....	2
Luxemburger .....	....	1
Norwegian	2	64
Portuguese	2	28
Roumanian .....	....	1
Russian	3	101
Siamese .....	....	....
Spanish	5	9
Swiss	1	2
Turkish .....	....	1

Revenue department. This is the most interesting as well as the most important department in the customs service, as its work differs so much from that done by corresponding organizations in other parts of the world. As mentioned above, the department has to collect duties not only on imports from foreign countries, but also on exports whether going abroad or to another Chinese port. Besides, there is also an import duty to be exacted on re-importation at a Chinese port, tonnage dues on shipping, transit dues exempting from further taxation foreign imports on inland and native produce from the interior intended for export to foreign countries, *likin* on opium (since 1887), and since 1901, the *likin* and native customs

¹ The figures for 1914 are based upon the *Service List*, including those on leave: fortieth issue. The total, therefore, does not agree with that on the preceding page.

duties within a fifteen-mile radius from each maritime customis.¹ All the customs regulations on trade and rules regarding tax exemptions, *etc.*, are issued by the revenue department, which now controls some forty-eight customs stations at as many ports or marts (see Appendix I).

As to the enforcement of the revenue laws against an offending foreign ship or merchant, the power of the customs is obviously incomplete. This has been quite clearly pointed out in the following paragraph by Mr. H. B. Morse, sometime Commissioner of Customs and Statistical Secretary, Inspector-General of Customs: ¹

On the entry of a ship, her papers are deposited with the Consul of her nationality, to be surrendered only upon issue of a provisional customs clearance. The passing of the import cargo proceeds much as elsewhere, but note is to be taken of the fact that from point to point the foreign ship and the foreign merchant are covered by the privilege of extraterritoriality. Against an offending ship the customs have only three remedies, all strictly limited by treaty. For clandestine trading she may be prohibited from further trading along the coast, a penalty which has never yet been enforced; and for having on board unmanifested goods—for a “false manifest”—she may be fined after joint investigation and decision by the customs and the Consul concerned, the limit of fine being Tls. 500. The third remedy is in the withdrawal of an extra-treaty concession made by the customs; the treaties were made to fit the old sailing-ship conditions, and it is only in the modern steamer procedure that any means can be found for enforcing proper preventive measures, by the withdrawal of the privilege of clearing before the payment of all import duties

¹ The ports where the transfer of the native stations has been effected are: Amoy, Canton, Chefoo, Foochow, Ichang, Kiukiang, Kiung Chow, Kongmoon, Newchwang, Ningpo, Pakhoi, Santuao, Shanghai, Shasi, Swatow, Tientsin, Wenchow, Wuchow, Wuhu.

² H. B. Morse, *The Trade and Administration of China*, pp. 379-80.

on the ship's cargo, whereby the customs are often forced to use a steam hammer to crack a nut. Against the merchant the customs have even less power, and, in effect, any penalties for false declaration are enforced against the incriminated goods, and never against the offending merchant: to confiscate an importer's goods and to fine him in addition for a breach of customs regulations is unheard-of in China. This arises partly from the very considerable degree of protection accorded to foreign merchants by treaty, and partly from the fact that there is no competent tribunal before which a revenue case can be carried; the Chinese territorial courts are ruled out, the Consul is necessarily the advocate of his national, and the Commissioner of Customs is a party to the case.

Another feature of the administration which is worth notice is that in the control of the maritime, as of the regular customs, the commissioner does not handle the revenues. The rule has been that the function of the commissioner of customs is only to obtain a receipt certifying the payment of the amounts due to the customs bank, or since 1914, to the Bank of China or its branches at each port, and to report the revenue so collected. The funds received by the bank are directly controlled by the Chinese Superintendent of Customs.¹ It was only for a short period during or after the revolution that the customs receipts were deposited in foreign banks, generally the Hongkong and Shanghai Bank under the name of the Inspector-General. Since January, 1914, however, the old practice has been restored.

Marine department. The mission of this department is to provide for the lighting of the coast of China. The coast line is divided among the following customs districts:

¹ There are Chinese superintendents controlling the customs jointly with foreign commissioners. In 1914 there were 42 maritime custom-houses in the country, 26 of which had Chinese Kien-tuhs or superintendents. See Mar. 1914, *Shui-wu-yu-kan*, or the *Monthly Report of Taxation under the Board of Finance*.

<i>District.</i>	<i>Limits.</i>
1. Pakhoi.	Tonkin frontier to Waichow Island.
2. Kiungchow (Hoihow).	} Hainan coast: Waichow Island to Hailingshan.
3. Kongmoon.	
4. Samshui.	West River from Amchow to sea; Kumchuk Creek, Wangmoon approach to West River.
5. Wuchow.	West River from Cocks Comb to Samchow and Flatshan Branch.
6. Canton.	West River from Wuchow to Cocks Comb.
7. Swatow.	Hailingshan to 114° E. longitude.
8. Amoy.	Mirs Point to the Lamcocks.
9. Foochow.	The Lamcocks to Chuanchoufu (Chinchen).
10. Santuao.	Chinchen to Ragged Point.
11. Wenchow.	Ragged Point to Namkuan.
12. Ningpo.	Namkuan to Taichow.
13. Shanghai.	Taichow to Hangchow Bay.
14. Chinkiang.	Hangchow Bay to the old mouth of the Yellow River (43 N. Lat.) and up the Yangtze to the Langshan Crossing.
15. Nanking.	The Yangtze from the Langshan Crossing to the Icheng Rocks from Vine Point Nanking.
16. Wunu.	The Yangtze from the Icheng Rocks to the Rosina Rock.
	The Yangtze from the Rosina Rock to Anking, and from Nanking to Tatung.
17. Kiukiang.	The Yangtze from Anking to the Matsushan, and from Tatung to the Matsushan.
18. Hankau.	The Yangtze from the Matsushan to Singti.
19. Yochow.	From Singti to Low Point and the waterway between Yochow and Changteh.
20. Changsha.	The Siang River above Lolintan.
21. Ichang.	From Yochow to the gorge above Ichang.
22. Chefoo.	From the old mouth of the Yellow River to the Tatsinho.
23. Tientsin.	From the Tatsinho to Shanhaikuan.
24. Newchwang.	From Shanhaikuan to Tairen.

The Marine Department is divided into the engineers, harbors, and lights branches. The engineer-in-chief used to be charged with the construction of new, and maintenance of existing, lights, and the provision of illuminating and other special supplies. But some of these functions

have now been transferred to the works department. He reports directly to the Inspector-General on lights, work affecting the whole coast, and through the commissioner, who has joint authority, in work affecting only one district. In 1914 there were 135 lights, five light-vessels, forty light-boats, 138 buoys and 119 beacons. At the head of the harbor staff is the coast inspector, who supervises coast work, surveying, sea and river conservancy; selects the sites for new lights, and is in technical control of all harbors work and pilotage for the whole coast in general. He reports his work to the Inspector-General and the commissioner in the same order as the engineer-in-chief mentioned above. Subject to the direct control of the commissioner, the coast inspector has general control over the revenue steamers and their personnel. He is also charged with the general supervision over buoys and beacons. The lights staff is controlled by the commissioner in the district, although in some districts like Shanghai and Ningpo it is under the coast inspector. The marine department is to be credited with excellent work which is said to be as efficient as any of its kind in other parts of the world. Owing to the enormous amount of work, the works department has recently been compelled to divide some of its functions.

3. THE ADMINISTRATION OF EACH CUSTOMS

The Commissioner and his functions. In the entire country there are some forty-two customs-houses in different ports, and six or seven more ports have also customs stations. At the head of each custom-house is the commissioner, who has under him the deputy commissioner, chief, first, second, third and fourth assistants, and so on. In certain places the deputy commissioner is the head officer of the *likin* station or regular customs which are under the control of the maritime customs. The organization of the

local customs is most complete at Shanghai, where there are three subordinate offices dividing the work of the whole customs. The indoor staff office is the center of the service, being charged with the revenue affairs and being divided into twelve sub-offices. The outdoor staff office is charged with the examination of merchandise and inspection of the traffic in general; while the coast staff office enforces the port regulation and supervises the movements of shipping. Moreover there are at Shanghai a bureau of statistics and a harbor master that take care, respectively, of the customs reports and records, and the lights and other conveniences at the harbor.

Like the Inspector-General, the commissioner has direct control or supervision in his district over the work done by each of the three departments described above. So far as he is connected with the revenue department, he has to see that duties are collected, to obtain receipts of the amounts paid from the Chinese bank and to report the revenue thus collected. In the case of tariff disputes he is to be present in the court as the representative of the customs. As regards the work of the other two departments, he supervises the engineering, harbor, and lights in his district, and receives reports from the engineer-in-chief and from the coast inspector concerning their works therein. He has also supervision over the revenue steamers and exercises direct control over buoys and beacons which are managed by the coast inspector. While the harbor master is charged with the supervision of pilotage, conservancy, movement of shipping, it is the commissioner who controls and directs him in issuing port regulations on these subjects. The maintenance of lights and the control of the lights staff in the particular district is also in the hands of the commissioner of customs.

The administration of customs in special districts: the

Tsingtao customs. There are at present two special customs districts under the administration of the maritime customs. The seizure of Tsingtao by Germany in 1898 led to the special arrangement of the customs at Kiaochow. While by treaty the Chinese customs was established in the leased territory, twenty per cent of the total net receipts were to go to the German colonial government. The commissioner of the customs at Tsingtao was to be a German, chosen from those already employed in the Chinese customs service. The rules regarding exemptions of duties were the same as in other ports of China, except that all imports destined exclusively for the German Concession were generally exempted. Besides, there was a free-trade zone at Tsingtao at which the imports and exports were generally free of customs duties. In order to prevent smuggling and other illegal practices, the Chinese and German officials acted conjointly. The customs cases were decided in accordance with the regulations in other ports, except that the German official was to take part in the adjudication in the cases which involved foreigners who had no consul at the port.

With the occupation of Tsingtao by Japan in November, 1914, the situation has again changed. Under the German occupation all the appointments at Tsingtao were made by the Inspector-General who appointed German officers already in the maritime customs. But in December, 1914, Japan began to insist that she should be at liberty to appoint any officer she might see fit, whether or not that officer had been employed in the Chinese customs service. In January, 1915, Japan again presented a proposal that the Chinese government should appoint to the Tsingtao customs service a total of forty-three Japanese and suggested a method of promotion which tended seriously to imperil the whole status of the service.

Finally, however, as a result of the international diplomatic pressure, especially of the British government, the following agreement was reached in August 6, 1915: that the Tsingtao customs shall be handed over to the Chinese authorities on the 1st of September, that the customs administration should be the same as it was before the war, except for the substitution of Japanese for Germans, and, *mutatis mutandis*, that the Japanese military should hand over all customs archives, *etc.*; and that the Japanese military should also hand over all revenue collected since the Japanese seizure of the port, less the deduction formerly made to the German administration. But at the same time there was an understanding as to the employment of a larger number of Japanese in the maritime customs.

The customs at Tairen, Manchuria. It was only after a long delay subsequent to the Russo-Japanese war and consequently with great loss of revenue to the Chinese treasury, that the customs at Tairen was finally established. In February, 1907, when the war had already been over for a long time, the Japanese government proposed to the Waiwu Pu that a maritime customs should be established at Tairen similar to that at Tsingtao. The regulations regarding this particular customs agreed upon since that year between China and Japan are that a Japanese from the Chinese maritime customs service should be appointed the commissioner, that his removal must be consented to by the Japanese Minister at Peking and that the collection of duties should be the same as in other ports, except that there is a free-trade zone at the port for which special rules have been provided.

CHAPTER XI

SOME ASPECTS OF THE TARIFF ADMINISTRATION

THE SYSTEM OF TAXATION

The classification of taxes. The commodities affected by the system of taxation may be classified into taxable, non-taxable, exempted and prohibited. The taxes collected by the Chinese customs are as follows:

- I. Import duty.
- II. Export duty, including coast-trade duty.
- III. Transit duty—inwards and outwards.
- IV. Tonnage dues.
- V. Extra taxes.

Import duty. In treating of these subjects, only the rules and practices that are peculiar to China are emphasized. Goods, having paid their import duty, are in most countries free to go anywhere. In South China, where the *likin* system prevails, the subsequent movement is taxed at every point. Protection, however, is given to foreign imports at the treaty ports without further payment, provided that the original payment within three years past can be proved. This documentary protection proves so valuable to the merchant that it has been abused. For instance, Chinese produce may be shipped to a foreign port (say from Canton to Hongkong) and back to China (say Shanghai), paying duty on export once and duty on import once, and half a duty on transport inland and may yet show a balance of profit over its transport from the place of production* direct to another place. Shanghai has become a

center of the re-export trade and there exists the institution of a system of "Importers' Passes", by which the importer may convey his rights to a purchaser. Without an "exemption certificate", the goods are liable to import duty at another port. But with the protection, in their original packing, they may be re-exported, either by the original importer or by the purchaser without further payment at the second port. This exemption applies also to goods which are again re-exported under the same conditions to a third port. If imports are intended for the interior, the merchant may either pay *likin* en route or half the import duty in addition and obtain a "transit pass inwards", which exempts him from *likin*.

Export duty. Under the export duty system, China taxes the goods going out of the port as well as those leaving the country. The former tax is also known by the name of the "coast-trade duty". The exact process of levying the two kinds of duty is this: Chinese produce, when *bona fide*, intended for shipment abroad, may be, on its way to a treaty port from the interior, covered by a "transit pass outwards" on payment of a half duty which exempts it from *likin*.¹ On shipment at any port, whether for a foreign or another Chinese port, export duty is paid; in the latter case the goods are covered by a "duty proof". On arrival at another Chinese port, a half, or two and one-half per cent duty, is exacted as coast-trade duty. Upon re-export either to a foreign country or to another port in China from this second port the coast-trade duty is refunded; if re-exported to a third Chinese port, the goods are covered by a "duty-paid certificate", and on arrival the coast-trade duty is again paid.

¹ The privilege of exemption from the *likin* is denied to Chinese produce not destined for foreign export.

Transit dues. According to the treaty, transit dues are liable on commodities imported or exported by foreigners, being one-half of the tariff duties, except in the case of the duty-free goods liable to a transit duty of two and one-half per cent *ad valorem*. Chinese goods not intended for export and not owned by a foreigner are not entitled to this privilege, as they have to pay the *likin in transitu*. On imports the transit duty is paid at the port of entry, while the exports pay at the port of shipment. Any attempt to pass goods inwards or outwards, otherwise than in compliance with the rule laid down, or any unauthorized sale *in transitu*, will render them liable to confiscation.

Tonnage dues. Every merchant vessel is liable to tonnage dues at any port at the rate of four mace per ton of forty cubic feet, if she be over one hundred and fifty tons burden; and one mace per ton of forty cubic feet, if she be of one hundred and fifty tons or below. Upon payment of tonnage dues a "tonnage-dues certificate" is issued to the ship, exempting her from further payment for a period of four months, which may be extended by the time spent in effecting repairs in a port.

Extra taxes. Foreign opium is to pay both duty and *likin* at the customs. Having paid these taxes, it is covered by labels affixed to each ball or small package, and exempted from all further payment so long as the labels are intact. Native opium since 1906 has been treated in the same way whenever it comes under the cognizance of the customs. Since 1901 all the *likin* and native customs duties which are collected at the *likin* stations and native customs within the fifteen-mile radius of each customs also go to the maritime customs department.

Non-taxable goods. All the non-taxable or duty-free goods still have to pay the coast-trade duty, transit duty and also the harbor tax which exists at Shanghai, though the

import and export duties are exempted. This is the rule prevailing in the customs. The following are not liable to the import duty: Foreign rice, cereals, and flour; gold and silver, both bullion and coin; printed books, charts, maps, periodicals, and newspapers. Those goods "are not to be discharged until after the issue of the 'permit to open hatches'! Any violation of this rule subjects the master of the ship to a fine, the amount of which is fixed by the treaty; whether landed, or merely placed in cargo-boats alongside".¹ So long as there is a freight or part freight of non-taxable commodities, the vessel which carries them, though no other goods are on board, is rendered liable to tonnage dues.

Exempted goods. In most countries there are two principles regarding the unenumerated goods; namely, the principle of duty exemption and that of duty payment or obligation. In China the latter principle prevails, that is, all the unenumerated goods, except those to be untaxed, prohibited and exempted, have to pay the tariff at five per cent.

Prohibited goods. Import and export trade is alike prohibited in the following articles: Gunpowder, shot, cannon, fowling pieces, rifles, muskets, pistols, all other munitions and implements of war, and salt. The export of copper cash and that of rice and any other grain, native or foreign, to any foreign port, is prohibited. But these commodities may be carried by foreign vessels from one Chinese port to another by paying a duty. Opium is now prohibited at all the ports except Canton and Shanghai; this trade is expected to be entirely eradicated in 1917. The general importation of morphia into China is prohibited except as to the importation, on payment of the tariff import duty and under special permit, for the use of hospitals and by duly

¹ Regulations relating to passengers' luggage, duty-free goods, etc. Instituted April, 1867.

qualified medical practitioners who are permitted to sell it only in small quantities.

2. THE STRUCTURE OF THE TARIFF

The structure of tariff duties is on either the *specific* or the *ad valorem* basis. The tariff in general under the Nanking and Tientsin treaties was *ad valorem*, but the treaty of 1902 has changed it to a specific basis. At present the major part of the tariff is on a specific basis; only the minor imported goods—about 240 varieties—are still subject to an *ad valorem* duty. The Chinese specific duty, however, is still based on the rate of the five per cent *ad valorem* duty. For instance, rice is worth Tls. 2.000 per picul, and the duty is Tls. 0.100. This is an *ad valorem* duty. But for the ten million piculs of rice, the duty is still based on Tls. 0.100 per picul. This is again *specific*.¹ Every specific duty is determined by the net weight of each article, making a deduction for the tare, weight of congee and so on. The standard of weight is deposited at the Canton customs for the purpose of settling any possible disputes.

The objections advanced against the *ad valorem* duty in China are as follows: In the first place, it has been said that the *ad valorem* tariff has put the honest trader at a distinct disadvantage, because practices of smuggling and false declaration were too common under the system, and that under a system where importers declared their own values and paid accordingly, there was great room for irregularities, and a decided temptation for one to endeavor to secure advantage over his rivals.² In the second place, the *ad valorem* duty

¹ To-day the schedule for the export duty is very simple and brief, but all the unenumerated goods must be taxed *specific* on the *ad valorem* basis of five per cent.

² *Memorandum to the British Secretary of State for Foreign Affairs by the British China League*, Oct., 1901.

led to "much unpleasantness between German importers and the customs authorities".¹ The customs officers were said to have been incompetent to judge the true price upon which to base the *ad valorem* duties, either on selling prices or on invoice cost.

But, on the other hand, there is much to be said against the present *specific* duty. The general price level in China has been rapidly increasing, while the present tariff rate is still based on the prices of fifteen years ago. It is the common opinion that in the past ten years the price levied has increased about seventy or eighty per cent. Among the forces that have caused the rise of prices are the following: only a short time ago both paper money and copper cash were issued without discretion, resulting in the undue expansion in the volume of currency; the exchange between gold and silver has always been against the latter; the material wants of the people have been greatly increased; and the demand for foreign goods has been accentuated by the further opening of the interior cities to foreign trade and the improvements in communication and transportation. To a certain extent, it is the *specific* duty that is responsible for the rigidity of the present tariff.

3. THE CURRENCY IN WHICH TO PAY THE CUSTOMS DUTIES

Art. XXXIII of the Tientsin treaty with Great Britain provides that duties shall be paid either in sycee or in foreign money according to the assay made at Canton in 1843. But in practice the Haikwan or maritime customs tael has become the only currency in which duties are levied by the customs. For whatever currency may be tendered by a merchant, the receiving office at the customs has to convert it into Haikwan tael which is the standard currency re-

¹ *Memorandum by the German Association at Shanghai to the Imperial Consulate General, Jan., 1901.*

quired by the government. The Haikwan tael, however, is not a coin but a fictitious and non-existent token currency. Consequently the accounts of the Chinese collectors of customs duties are still kept, as for centuries they have been, not in coin, but in weight in the tael of silver, and its tenths, hundredths, and thousandths, known in England as mace, candarines and cash. As the Haikwan tael is silver of so great a fineness, it is seldom found by merchants in order to pay their duties. The result is that at few ports does any merchant tender Hk. taels in payment of duties and the common practice is to pay all the customs obligations in local currency at the rate of conversion settled on the opening of each customs.¹ At the port of Shanghai, where there were paid in 1911 duties to the extent of one-third of the total customs collection of the year, the value of the *sycee* may be most conveniently found. The standard rate of conversion which was fixed about half a century ago and is still current in all the open ports for revenue purposes has been Hk. Tls. 100 = Shanghai Tls. 111.40 worked out as follows:

Weight on local scale	100.0.0.0.
Add for difference in weight	28.0.0.
Add for touch	6.1.6.8.
Add for expenses of melting, <i>etc.</i>	0.2.0.4.
	<hr/>
Divide by the Shanghai Convention, 0.98.....	109.1.7.2.
	<hr/>
	111.4.0.0.

¹ The value upon which duty is to be calculated is the market value of the goods in local currency. This market value when converted into Haikwan taels is considered to be twelve per cent higher than the amount upon which duty is to be calculated. That is to say, out of every one hundred Hk. taels there should be a deduction of twelve taels, and the remaining eighty-eight taels becomes the value upon which to calculate the duty. The total deduction of twelve per cent consists of customs duty, five per cent; interest, two and five-tenths per cent; corporation expenses, two and five-tenths per cent; and other expenses, two per cent.

The system causes great trouble to merchants in paying duties by calling for payment in a medium which does not really exist. Suggestions were made in the Board of Finance in February, 1915, that dollars should be substituted for Hk. taels in the payment of customs duties. The reasons are that many other taxes have already been levied in the new currency, and that owing to the gradual disappearance of silver bullion the conversion of other currency into Hk. taels has proved more disadvantageous to the merchants.

4. THE ENFORCEMENT OF TARIFF LAWS

Confiscations and fines. By treaty China has not given up her sovereign right to enforce the revenue laws. In fact such stipulations have been explicitly and distinctly inserted in all the treaties entered into with foreign powers. In the Tientsin treaty with Great Britain, for instance, Art. XLVI provides that "the Chinese authorities at each port shall adopt the means they may judge most proper to prevent the revenue suffering from fraud or smuggling".

In practice, however, the difference of treatment concerning the infliction of confiscation and that of fines has resulted partly from the high degree of protection accorded to foreigners by treaty and partly from the absence of an efficient customs tribunal. In the case of confiscation the whole responsibility of protecting the revenue is in the hands of customs authorities. The latter can seize the goods, and once in the customs, the foreign consul can only help their owner, should he appeal to him, by requesting an explanation from the customs officials. In the case of fines, the Chinese authorities can not recover them except through the foreign consulate.¹ As matter of fact, as

¹ Some forty-five or fifty years ago, Sir James Atherton (British), speaking on the power of the Chinese customs to protect their revenue

mentioned elsewhere,¹ against an offending ship the Chinese customs have only three remedies, all of which are strictly limited by treaty. To fine a foreign merchant in addition to confiscation of his goods for a breach of customs regulations is a practice not found in China.

The adjudication of customs cases. When a dispute arises between the customs and the importer regarding the value or classification of goods, the case is referred to a Board of Arbitration composed as follows: an official of the customs; a merchant selected by the consul of the importer; and a merchant, differing in nationality from the importer, selected by the senior consul. The final finding of the majority of the board is binding upon both parties and their decision must be announced within fifteen days of the reference.

Should the Board sustain the customs valuation, or, in the event of not sustaining that valuation, should it decide that the goods have been undervalued by the importer to the extent of not less than 7.5 per cent, the importer will pay the fees; if otherwise, the fees will be paid by the customs. Should the Board decide that the correct value of the goods is 20 per cent (or more) higher than that upon which the importer originally claimed to pay duty, the customs authorities may retain possession of the goods until full duty has been paid and may

against foreign merchants, drew a distinction between confiscation and fine. The former he regarded as against the thing, the latter against the person. According to his opinion, a fine being of the nature of penalty inflicted for a crime, led, in its ultimate mode of enforcement, to the seizure of the person. In the case, therefore, of fines being inflicted, Atherton recognized British subjects as being under the protection of the extraterritoriality as provided in Art. XVI of the Tientsin treaty, and held that in such cases the Chinese authorities were bound to refer the matter to the Consul for adjudication. This view did not seem to have been held by the British Government, though in practice the Chinese customs seldom inflict any fine upon foreigners.

¹ See chap. x, pp. 161 *et seq.*

levy an additional duty equal to four times the duty sought to be evaded.

In case of confiscation and fine by the customs authorities, there are special rules for joint investigation between the commissioner of customs and the consul of the importer. When a ship or goods belonging to a foreign merchant is seized for confiscation, the superintendent of customs notifies those interested, who may through the consul demand a public investigation. On the consul's request, the superintendent holds a court at which the consul is present, for the investigation and settlement of the case. When the consul and superintendent agree to confiscate, the merchant has no appeal; when the consul dissents from the superintendent's views, the case is referred to the superior authorities at Peking—the Minister of his nation on the one side, and the Chinese Foreign Office on the other.

When the act of which a foreign merchant is accused is one which is punishable by fine, the commissioner of customs enters a complaint at the consulate, and the consul will hold a court, the commissioner being present, for the investigation and settlement of the case. When the commissioner dissents from the consul's views, the case will be referred to the superior authorities at Peking.

In spite of those rules, the courts of foreign powers at Chinese ports have very uncertain jurisdiction over their nationals in respect of a breach of the tariff regulations, and the result is that in most cases confiscation is all that follows the discovery of smuggled goods. Something more than this is needed especially to solve the difficulty of preventing the smuggling of arms into China, which was amply demonstrated by the *Tatsu Maru* incident a few years ago.

5. THE DRAWBACK AND BONDED WAREHOUSE SYSTEMS

Drawbacks. In early times the Chinese government had no rule for drawbacks or any approach to the system. The privilege of re-exporting goods which were unsalable at the ports where they had paid duty, was first provided in Article XX of the American Treaty in 1844, and reaffirmed in those subsequently negotiated treaties with foreign powers. At that time, however, the object of the provision was solely to benefit the foreigner in the sale of his goods, and had no reference to native produce passing from one part of China to another, either inland or coast-wise. In the beginning there was also no limit of time beyond which the importer could not ask for the privilege.

It was the Chefoo treaty with Great Britain in 1876 that, in its Art. V, made three years the term within which a drawback might be claimed on duty-paid imports. The repayment of cash was at first objected to by the government on account of the risk of serious loss to the customs and the complication of accounts, the price of *sycee* differing from day to day. But the German agreement in December of the same year, as a result of which the regulation relating to drawback certificates was issued by the Chinese government in the following year (1877), made the said certificate "exchangeable for ready money at the option of the merchant". Since 1902, by the British commercial treaty, the drawback certificates have been issued by the customs instead of, as before, by the superintendent of customs, a change which made possible the issue of those certificates within three weeks of the presentation to the customs of the papers entitling the applicant to receive them.

There are now four categories of goods which are entitled to the drawback privilege. These are (1) goods for re-exportation, (2) those which have paid duty but have not been shipped, (3) those which have been provided with an import

certificate but have not been landed, and (4) damaged goods. They are entitled to the drawback of import duty or coast-trade duty as the case may be. But in the two systems of drawbacks, there is a great difference as to the privileges given to the merchants. In the first place, the term of the drawback certificates for foreign goods is three years, while the term of those for native goods is only twelve months. In the second place, the certificates for foreign goods have the same effect as cash, while those for native goods can be used only to pay duty for the same kind of goods and not to exchange for cash. This is only one of countless instances in which the foreigner is preferred to the native.

The pass system. In order to prevent any attempt to defraud the revenue, the customs has provided a pass system, the idea of which is to certify that the goods have paid import duty and that their owner is entitled to drawback when re-exported. There are three kinds of pass certificates used in the customs: namely, the original pass, the new pass for foreign goods, and the new pass for native goods. The original pass is a non-transferable certificate which shows the payment of duty and entitles the merchant to drawback privileges. The new pass for foreign goods has the same effect as the original pass, but is transferable. This is a separate certificate but given at the same time and at the same customs with the other pass. When the goods are sold either in whole or in part, the purchaser has the same right of re-exportation by possessing this second certificate which is given to him by the importer. The new pass for native goods is for the same purpose, except that it is used only for native goods inland which are also entitled to the drawback privilege. Besides these three classes of pass certificates, a pass is always issued on the importation or exportation of arms. For duty-free goods

a pass is also often utilized to save the trouble in the time of re-exportation, if there be any.

Bonded warehouses. The system of bonded warehouses is related to that of drawbacks because the better development of the former will cause less re-exportation and therefore less application of the latter. This is shown in more advanced countries. The establishment of bonded warehouses in China was provided for the first time in the Alcock treaty in 1869, which, however, was not ratified. The hesitation as to the provision by government of such warehouses at that time was due to the fact that if the system were to be made, in any degree, remunerative, all imported goods should be ordered to enter and pay rents. But there were no importations except opium, upon which a sufficiently high duty was charged, to make such system profitable to importers.¹ Since then, however, the bonded warehouses under the customs supervision began to grow up in the open ports, especially at Shanghai. In 1902, in the British treaty (Art. VI), the Chinese government agreed to give increased facilities at open ports for bonding and for repacking merchandise in bond, and "to grant the privileges of a bonded warehouse to any warehouse which it is established, to the satisfaction of the customs' authorities, affords the necessary security to the revenue".

There are at present three kinds of bonded warehouses:

I. *The new private warehouses.* These are generally situated near the wharf and belong to the private steamship companies. Imported goods are allowed to be landed before the payment of duty. Without the customs' permission, however, they are not to be taken out of the warehouses.

¹ See *Note on the Sixth Meeting of the Convention between British and Chinese Plenipotentiaries*, April 29, 1868.

II. *The customs warehouses.* Into these warehouses goods are allowed either to be landed temporarily to be transported to another place or to be kept for a longer term while waiting for the market. This enables the merchant to pay duty after the sale of his goods and facilitates the transportation. In other countries these warehouses usually belong to the customs; in China they are established by private merchants with the permission and under the strict control of the customs. Without the supervision of the customs authorities, goods are permitted neither to be kept in, nor to be taken out of, the warehouses.

III. *Special warehouses.* These are established and managed exclusively by the customs in order to keep all confiscated, and government goods, and articles of war, *etc.*

APPENDIX I

TREATY PORTS, MARTS, ETC. . . . .	183

A. CUSTOMS STATIONS

Port.	Province	Date of Customs Opening	By Treaty with	Estimated Chinese Population, 1912.
1. Aigun	Heilungkiang	July, 1909	Japan, 1905	5,800
2. Amoy	Fukien	Apr., 1862	Great Britain, 1842	114,000
3. Antung	Shengking	Mar., 1907	United States, 1903	34,000
4. Canton	Kuangtung	Oct., 1859	Great Britain, 1842	900,000
5. Changsha	Hunan	July, 1904	Japan, 1903	250,000
6. Chefoo	Shantung	Mar., 1862	Great Britain, 1858	54,000
7. Chinkiang	Kiangsu	Apr., 1861	Great Britain, 1858	184,000
8. Chinwangtao	Chihli	Dec., 1901	Imperial Decree, 1898	5,000
9. Chungking	Szechuan	Mar., 1891	Great Britain, 1890	614,500
10. Dairen	(Shengking)	July, 1907	(1)	20,000
11. Foochow	Fukien	July, 1861	Great Britain, 1842	624,000
12. Hangchow	Chekiang	Oct., 1896	Japan, 1895	594,000
13. Hankow	Hupei	Jan., 1862	Great Britain, 1858	826,000
14. Harbin	Kirin	July, 1909	Japan, 1905	3,700
15. Hunchun	Kirin	Jan., 1910	Japan, 1905	3,700
16. Ichang	Hupei	Apr., 1877	Great Britain, 1876	55,000 (Tsingtao)
17. Kiaochou	Shantung	July, 1899	(2)	34,000
18. Kiukiang	Kiangsi	Jan., 1862	Great Britain, 1858	36,000
19. Kiungchow (Hoihow)	Hainan	Apr., 1876	Great Britain, 1858	43,000
20. Kongmoon	Kuangtung	Mar., 1904	Great Britain, 1902	62,000
21. Kowloon	Kuangtung	Apr., 1897	Great Britain, 1886	
22. Lappa	Kuangtung	June, 1871	—	
23. Lungchingtsun	Kirin	Jan., 1910	Japan, 1905	500
24. Lungchow	Kuangsi	June, 1889	France, 1886	13,000
25. Manchouli	Heilungkiang	Feb., 1907	Japan, 1905	5,000
26. Mengtze	Yunnan	Aug., 1889	France, 1886	10,000
27. Nanking	Kiangsu	May, 1899	France, 1858	269,000
28. Nanning	Kuangsi	Jan., 1907	Great Britain, 1897	40,000
29. Newchwang	Shengking	May, 1864	Great Britain, 1858	61,000

¹ By an agreement dated May 30, 1907, Japan undertook to place the Dairen customs under the control of the maritime customs.

² By an agreement dated Dec. 2, 1905, Germany placed the Kiaochou customs under the control of the maritime customs.

30. Ningpo	Chekiang	May, 1861	Great Britain, 1842	450,000
31. Pakhoi	Kuangtung	Apr., 1877	Great Britain, 1876	20,000
32. Samshui	Kuangtung	June, 1897	Great Britain, 1897	6,000
33. Sansing	Kirin	July, 1909	Japan, 1905	22,500
34. Santuao	Fukien	May, 1899	Imperial Decree, 1898	8,000
35. Shanghai	Kiangsu	June, 1854	Great Britain, 1842	651,000
36. Shasi	Hupei	Oct., 1896	Japan, 1895	95,000
37. Soochow	Kiangsu	Sept., 1806	Japan, 1895	500,000
38. Suifenho	Kirin	Feb., 1908	Japan, 1895	1,500
39. Swatow	Kuangtung	Jan., 1860	Great Britain, 1858	70,000
40. Szemao	Yunnan	Jan., 1897	France, 1895	15,000
41. Tatumkow	Shengking	Mar., 1907	Japan, 1903	4,300
42. Tengyueh	Yunnan	May, 1902	Great Britain, 1897	10,000
43. Tientsin	Chihli	May, 1861	Great Britain, 1860	800,000
44. Wenchow	Chekiang	Apr., 1877	Great Britain, 1858	100,000
45. Wuchow	Kuangsi	June, 1897	Great Britain, 1897	40,000
46. Wuhu	Anhui	Apr., 1877	Great Britain, 1876	98,000
47. Yatung ¹	Tibet	May, 1894	Great Britain, 1893	—
48. Yochow	Hunan	Nov., 1896	Imperial Decree, 1898	20,000

B. OPENED TO TRADE

In addition to the above "ports" the following places have been declared open to international trade:

In Manchuria

		By Agreement with
1. Mukden	(Shengking)	U. S., 1903
2. Fakumen	"	Japan, 1905
3. Fenghuangcheng	"	" "
4. Hsinmintun	"	" "
5. Tiehling	"	" "
6. Tungkiangtze	"	" "
7. Yingkou (Port of New-chwang)	"	" "
8. Liauyang	"	" "
9. Changchun (Kuanchengtze) ..	(Kirin)	Japan, 1905
10. Kirin	"	" "
11. Ninguta	"	" "
12. Chuitzuchien	"	Japan, 1909
13. Toutaokou } Chientao	"	Japan, 1909
14. Paitsaokou }		
15. Tsitsihar	Heilungkiang	Japan, 1905
16. Hailar	"	" "

In Sinkiang

17. Kashgar	Russia, 1860
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¹ No customs revenue is collected at Yatung.

In Shantung

- | | |
|---------------------|---------------------------|
| 18. Choutsun | Imperial Decree, 1904 |
| 19. Tsinanfu | Imperial Decree, 1904 |
| 20. Weihaiwei | (Leased to Great Britain) |
| 21. Weihsien | Imperial Decree, 1904 |

In Kiangsu

- | | |
|---------------------------------|-----------------------|
| 22. Wusung (near Shanghai)..... | Imperial Decree, 1898 |
|---------------------------------|-----------------------|

In Kuangtung

- | | |
|------------------------|------------------------|
| 23. Hongkong | Ceded to Great Britain |
| 24. Macao | Ceded to Portugal |
| 25. Kuangchowwan | Leased to France |

In Tibet

- | | |
|----------------|--|
| 26. Gartok } | Great Britain. Tibetan Treaty, September 7, 1904
(Confirmed by China, April 27, 1906) |
| 27. Gyangtze } | |

C. PORTS OF CALL

1. YANGTZE STAGES

- | | | |
|--------------------------|--|--|
| a. Tatung (Anhui) | | |
| b. Anking (Anhui) | | |
| c. Hukow (Kiangsi) | | |
| d. Wusueh (Hupeh) | | |
| e. Lukikow (Hupeh) | | |
| f. Kiangyin (Kiangsu) | | |
| g. Icheng (Kiangsu) | | |
| h. Huangchihkang (Hupeh) | | |
| i. Huangchow (Hupeh) | | |
- | | | |
|--|----------------|--------------------|
| | For | By |
| | Passengers and | Chefoo |
| | Cargo | Agreement |
| | | September 13, 1876 |
-
- | | | |
|--|------------|--------------|
| | For | Yangtze |
| | Passengers | Regulations, |
| | | August, 1898 |

2. WEST RIVER STAGES

- | | | |
|--------------------------|-------------------------------------|---|
| a. Kumchuk (Kuangtung) | } For
Passengers
and
Cargo | { Burma Agreement, Feb., 1897
Burma Agreement, Feb., 1897
Mackay Treaty, Sept., 1902
Burma Agreement, Feb., 1897
Mackay Treaty, Sept., 1902
Mackay Treaty, Sept., 1902 |
| b. Shuihsing (Kuangtung) | | |
| c. Paktau (Kuangtung) | | |
| d. Takhing (Kuangtung) | | |
| e. Lating (Kuangtung) | | |
| f. Dosing (Kuangtung) | | |
| g. Fungtsun (Kuangtung) | } For
Passengers | { Mackay Treaty, Sept., 1902 |
| h. Kaukong (Kuangtung) | | |
| i. Yutshing (Kuangtung) | | |
| k. Lukpo (Kuangtung) | | |
| l. Howlik (Kuangtung) | | |
| m. Lutu (Kuangtung) | | |
| n. Maning (Kuangtung) | | |
| o. Yungan (Kuangtung) | | |
| p. Kulo (Kuangtung) | | |
| q. Jungki (Kuangtung) | | |

APPENDIX II

CUSTOMS REVENUE . . . . .	186

Year	Tls.
1864.....	7,874,257
1865.....	8,280,281
1866.....	8,781,875
1867.....	8,864,817
1868.....	9,448,474
1869.....	9,878,848
1870.....	9,543,977
1871.....	11,216,146
1872.....	11,678,636
1873.....	10,977,082
1874.....	11,497,272
1875.....	11,968,109
1876.....	12,152,921
1877.....	12,067,078
1878.....	12,483,988
1879.....	13,531,670
1880.....	14,258,583
1881.....	14,685,162
1882.....	14,085,672
1883.....	13,286,757
1884.....	13,510,712
1885.....	14,472,766
1886.....	15,144,678
1887.....	20,541,399
1888.....	23,167,892
1889.....	21,823,762
1890.....	21,996,226
1891.....	23,518,021
1892.....	22,689,054
1893.....	21,989,300
1894.....	22,523,605
1895.....	21,385,389

Year	Tls.
1896.....	22,579,366
1897.....	22,742,104
1898.....	22,503,397
1899.....	26,661,460
1900.....	22,873,986
1901.....	25,537,574
1902.....	30,007,044
1903.....	30,530,688
1904.....	31,493,156
1905.....	35,111,004
1906.....	36,068,595
1907.....	33,861,346
1908.....	32,901,895
1909.....	35,539,917
1910.....	35,571,879
1911.....	36,179,825
1912.....	39,950,612
1913.....	43,969,853

APPENDIX III

TRADE STATISTICS

FOREIGN TRADE OF CHINA

	Imports Hk. Tls.	Exports Hk. Tls.	Total Hk. Tls.
1864	51,293,578	54,006,509	105,300,087
1865	61,844,158	60,054,634	121,898,792
1866	74,563,674	56,161,807	130,725,481
1867	69,329,741	57,895,713	127,225,454
1868	71,121,213	69,114,733	140,235,946
1869	74,923,201	67,143,988	142,067,189
1870	69,290,722	61,682,121	130,972,843
1871	70,103,077	66,853,161	136,956,238
1872	67,317,049	75,288,125	142,605,174
1873	66,637,209	69,451,277	136,088,486
1874	64,360,864	66,712,868	131,073,732
1875	67,803,247	68,912,929	136,716,176
1876	70,269,574	80,850,512	151,120,086
1877	73,233,896	67,445,022	140,678,918
1878	70,804,027	67,172,179	137,976,206
1879	82,227,424	72,281,262	154,508,686
1880	79,293,452	77,883,587	157,177,039
1881	91,910,877	71,452,974	163,363,851
1882	77,715,228	67,336,846	145,052,074
1883	73,567,702	70,197,603	143,765,395
1884	72,760,758	67,147,680	139,908,438
1885	88,200,018	65,005,711	153,205,729
1886	87,479,323	77,206,568	164,685,891
1887	102,263,669	85,860,208	188,123,877
1888	124,782,893	92,401,067	217,183,960
1889	110,884,355	96,947,832	207,832,187
1890	127,093,481	87,144,480	214,237,961
1891	134,003,863	100,947,849	234,951,712
1892*	135,101,198	102,583,525	237,684,723

	Imports	Exports	Total
	Hk. Tls.	Hk. Tls.	Hk. Tls.
1893	151,362,819	116,632,311	267,995,130
1894	162,102,911	128,104,522	290,207,433
1895	171,696,715	143,293,211	314,989,926
1896	202,589,994	131,081,421	333,671,415
1897	202,828,625	163,501,358	366,329,983
1898	209,579,334	159,037,149	368,618,483
1899	264,748,456	195,784,832	460,533,288
1900	211,070,422	158,996,752	370,067,174
1901	268,302,918	169,656,757	437,959,675
1902	315,363,905	214,181,584	529,545,489
1903	326,739,133	214,352,467	541,091,600
1904	344,060,608	239,486,683	583,547,291
1905	447,100,791	227,888,197	674,988,988
1906	410,270,082	236,456,739	646,726,821
1907	416,401,369	264,380,697	680,782,066
1908	394,505,478	276,660,403	671,165,881
1909	418,158,067	338,992,814	737,150,881
1910	462,964,894	380,833,328	843,798,222
1911	471,503,943	377,338,166	848,842,109
1912	473,097,031	370,520,403	843,617,434
1913	570,162,557	403,305,546	973,468,103

APPENDIX IV

LIST OF OPEN PORTS ARRANGED ACCORDING TO THE TOTAL AMOUNT OF CUSTOMS REVENUE COLLECTED AT EACH DURING THE YEAR 1912 .	190

	Total Collection
	Hk. Tls.
1. Shanghai	11,513,062
2. Tientsin	3,537,827
3. Hankow	3,508,589
4. Canton	3,076,900
5. Swatow	1,916,331
6. Kiaochow	1,670,029
7. Dairen	1,407,927
8. Amoy	1,052,516
9. Chinkiang	932,838
10. Newchwang	919,253
11. Kiukiang	857,420
12. Foochow	846,534
13. Wuhu	845,769
14. Chefoo	704,736
15. Wuchow	665,091
16. Hangchow	544,823
17. Ningpo	449,993
18. Kongmoon	449,335
19. Suifenhö	443,597
20. Chungking	404,482
21. Changsha	390,336
22. Mengtze	361,245
23. Samshui	339,011
24. Lappa	326,160
25. Kowloon	282,589
26. Antung	264,348
27. Manchouli	259,699
28. Chinwangtao	238,296

	Total Collection
	Hk. Tls.
29. Kiungchow	226,556
30. Harbin	215,682
31. Soochow	189,392
32. Nanking	170,393
33. Santuao	147,517
34. Shasi	120,851
35. Pakhoi	114,796
36. Yochow	107,137
37. Nanning	102,879
38. Ichang	80,484
39. Aigun	74,829
40. Wenchow	54,145
41. Tengyueh	50,826
42. Hunchun	34,455
43. Lungchingsun	23,159
44. Sansing	11,690
45. Tatungkow	6,987
46. Szemao	6,853
47. Lungchow	3,245
Total	39,950,612

APPENDIX V

CURRENCY, WEIGHTS AND MEASURES

Duties are payable in the Haikwan or Customs Tael of China. A tael is a Chinese ounce, or $1\frac{1}{3}$ ounces avoirdupois, of silver, of which the average value in 1910 was 66 cents gold, as compared with 63 cents in 1909, 65 cents in 1908, 79 cents in 1907, and 80 cents in 1906. The rates are fixed in taels, mace (one-tenth of a tael), candareens (one-tenth of a mace), and cash (one-tenth of a candareen). They are actually paid in most open ports in Mexican dollars and fractions thereof, at the current rates of exchange. In ports where the local tael is in common use customs duties are paid in taels and fractions thereof at the current rate of exchange between the local tael and the official or customs tael.

Weights are on the basis of a *picul*, weighing $133\frac{1}{3}$ pounds avoirdupois, a *catty*, which is one one-hundredth of a *picul* or $1\frac{1}{3}$ pounds avoirdupois, and a *liang*, or Chinese ounce, one-sixteenth of a *catty*, or $1\frac{1}{3}$ ounces avoirdupois. A Chinese *chang* is equal to ten Chinese feet, or 141 English inches. One Chinese *chih* is equal to one-tenth of a *chang*, or 14.1 English inches.

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